MORGAN SINDALL GROUP

Morgan Sindall Group plc
Annual Report 2023

We are a leading UK construction and regeneration group

In 2023, our strong revenue growth delivered record results. We maintained our balance sheet strength and a high-quality and growing order book.

We remain committed to creating social and environmental value and have again retained both our AAA ESG rating from MSCI and our CDP A score.[1]

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1 MSCI is a provider of decision support services for the global investment community; its ESG ratings are used by the majority of our major shareholders. CDP is a charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

Cover photo: Home Group, Newcastle upon Tyne
sgphotography.co.uk

2023 in numbers

Strong operating performance

£4,117.7m
Revenue
(2022: £3,612.2m)

£141.3m
Operating profit (adjusted*)
(2022: £139.2m)

£140.6m
Operating profit
(2022: £88.3m)

£8,920.2m
Secured workload
(2022: £8,458.9m)

Financial strength and shareholder returns

£144.6m
Profit before tax (adjusted*)
(2022: £136.2m)

£143.9m
Profit before tax
(2022: £85.3m)

£281.7m
Average daily net cash
(2022: £256.3m)

114p
Total dividend per share
(2022: 101p)

Social and environmental value

966
Apprentices and sponsorships for graduates and national vocational and professional qualifications
(2022: 882)

45%
Reduction in Scope 1 and 2 carbon emissions from 2019 baseline[1]
(2022: 45%)

73p
Monetary value of social activities per £1 of project spend on 80 projects measured
(2022: 67p on 110 projects measured)

AAA
MSCI environmental, social and governance (ESG) rating
(2022: AAA)

Materiality

Our annual report aims to provide our investors with the information they need to make decisions, for example on whether to buy, hold or sell our shares, how to vote on their shares and whether to engage with our Board on any issue. We have included information we believe is material to these decisions and presented it in a way that we believe is fair, balanced and understandable. We recognise that this report will be read by a variety of other stakeholders including employees, our supply chain, clients and partners, funders and performance bond issuers, analysts and regulators. Where we believe that a topic is material to many of them, based on our latest materiality assessment (see page 21), we either include it in this report or refer to other reports and information on our website. We believe this approach meets the requirements of company law, the UK Corporate Governance Code, the Companies Act 2006 and UK-adopted international accounting and reporting standards, and that we go beyond these requirements where we feel it is useful for the reader.

* See note 28 to the consolidated financial statements for alternative performance measure definitions and reconciliations.

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

The quick read

Harnessing the energy of our people to achieve the improbable

Our specialist divisions

Through six divisions, we deliver construction and regeneration for the public, commercial and regulated sectors.

Construction

- Construction
- Infrastructure
- Fit Out
- Property Services

Regeneration

- Partnership Housing
- Urban Regeneration

See page 7

Our business model

We generate cash through our construction activities and invest in long-term regeneration schemes, which in turn create opportunities in construction.

Our capabilities match the UK's demand for affordable housing, urban regeneration and investment in public, commercial and social infrastructure.

See page 10

Our strategy

We pursue organic growth for the Group through the exceptional performance of our businesses.

Our priorities

- Achieve quality of earnings
- Excel in project delivery
- Secure long-term workstreams
- Keep innovating to deliver on our Total Commitments to our stakeholders and wider society
- Maintain financial strength

See page 12

Core Values

Our purpose, culture, strategy and performance are driven by our Core Values. We encourage our people to challenge the status quo and exceed our stakeholders' expectations.

Our Core Values were updated with effect from 1 January 2024.

See page 12

Visit morgansindall.com for more information

A decentralised approach

At the heart of our Core Values is our decentralisation.

Our divisions are complementary but different, and our decentralised approach enables them to respond quickly to the specific needs of their markets.

Our people are empowered to make the right decisions for the business and our stakeholders.

See page 7

Being a responsible business

We have made five Total Commitments to our stakeholders and wider society.

See pages 20 to 44

Dedicated to our stakeholders

Long-term relationships, based on dialogue, transparency and collaboration, are key to our success.

Our key stakeholders

- Our people
- Supply chain
- Clients and partners
- Local communities
- Shareholders
- Funders and performance bond issuers

See pages 17 to 19

Our Total Commitments are aligned with the United Nations (UN) Sustainable Development Goals. We believe we can have the biggest impact in the following:

Chief executive's statement

A record full-year performance reflecting the strength and depth of the Group's operations

2023 was another record year for the Group, reflecting the quality of our operations and the talent and commitment of our people.

Despite market headwinds and disappointing losses in Property Services due to cost pressures and operational challenges, the diversified and decentralised nature of our operations has enabled us to continue making significant strategic progress.

Revenue increased by 14% to £4,117.7m (2022: £3,612.2m) and adjusted* operating profit by 2% to £141.3m (2022: £139.2m). Adjusted* operating margin was 3.4%, 50 basis points lower than the prior year (2022: 3.9%). Adjusted* profit before tax was £144.6m, up 6% (2022: £136.2m), and statutory profit before tax increased 69% to £143.9m (2022: £85.3m), driven mainly by an exceptional building safety credit of £2.2m compared to a charge of £48.9m in 2022.

We maintained our strong balance sheet and positive cash flow, with average daily net cash of £281.7m (2022: £256.3m). This supports the Group's future growth by enabling us to make the best decisions and by giving potential clients assurance of our long-term solvency and availability of cash resources.

Our total dividend for the year has increased by 13% to 114p (2022: 101p). This equates to a dividend cover of 2.2 times and reflects our results, balance sheet and the Board's confidence in the Group's long-term prospects.

We act responsibly to do the right thing
Our responsible business approach has long been an integral part of our business. In 2023 we reviewed our Core Values and added: 'We act responsibly to do the right thing', to reflect that sustainability is embedded in our operations and that we are committed to making decisions that consider all our stakeholders.

During the year, we progressed our efforts to measure and reduce our carbon emissions and I am proud to say that we have achieved a CDP A score for our leadership on climate change mitigation for the fourth year running, and retained our AAA environmental, social and governance (ESG) rating from MSCI for the third year. We have realigned our science-based targets with a 1.5°C scenario, added new targets for 2045 that reduce our reliance on carbon offsetting, and extended our key performance indicators to include 'wider' as well as 'operational' Scope 3 emissions, which include emissions by our suppliers in processing their products and by our clients in running the buildings we hand over. Some of these wider emissions are challenging to collect data for and measure accurately, and we have been working hard with our supply chain to improve our processes. We have continued to evolve industry-leading climate solutions, and received a £1m innovation grant from the government to apply artificial intelligence (AI) capabilities to our carbon reduction tool, CarboniCa, which will speed up the whole-life carbon assessments of our projects.

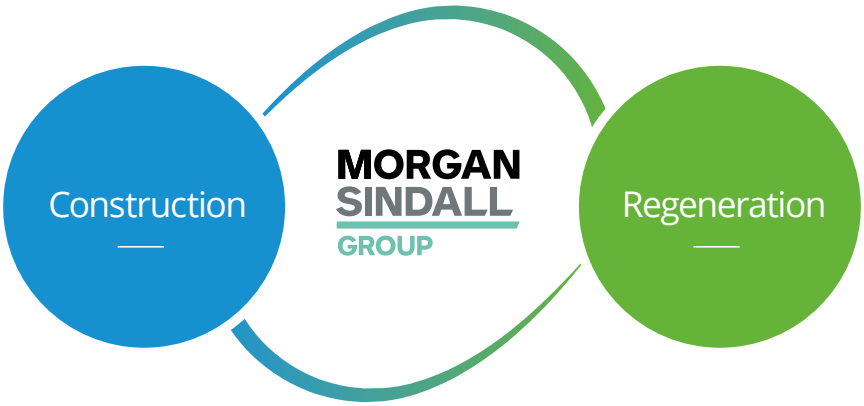
Our health and safety statistics were disappointing this year, partly due to our high safety standards not always being followed. We will keep pressing the need for constant vigilance on site so that people can protect themselves and each other. Our divisions have continued to work closely with our supply chain to increase safety and reduce carbon emissions, and we have been awarded Gold status by the Supply Chain Sustainability School for our involvement in training and knowledge sharing.

Our outlook for 2024
While there remains some uncertainty in the wider economy, inflation is reducing and there is a prospect of lower interest rates, which gives us confidence for the year ahead. We have a high-quality and growing order book spread across a wide range of sectors. We are therefore well-positioned for the future.

John Morgan
Chief Executive

Our divisions

Offering expertise that meets the specific needs of our markets



Construction

Construction

£966.6m
Revenue

MORGAN SINDALL CONSTRUCTION

Education, healthcare, commercial, industrial, leisure and retail markets.

morgansindallconstruction.com

Infrastructure

£886.7m
Revenue

MORGAN SINDALL INFRASTRUCTURE

Highways, rail, energy, water and nuclear markets.

morgansindallinfrastructure.com

BakerHicks

Infrastructure includes the BakerHicks design activities based out of the UK and Switzerland.

bakerhicks.com

Fit Out

£1,105.2m
Revenue

overbury

Fit out and refurbishment in commercial, central and local government offices, as well as further education.

overbury.com

Morgan Lovell

Office interior design and build services direct to occupiers.

morganlovell.co.uk

Property Services

£185.2m
Revenue

MORGAN SINDALL PROPERTY SERVICES

Response and planned maintenance services for social housing and the wider public sector.

morgansindallpropertyservices.com

Regeneration

Partnership Housing

£837.5m
Revenue

LOVELL

Partnerships with local authorities and housing associations. Mixed-tenure developments, building/developing homes for open market sale and for social/affordable rent, design and build house contracting and planned maintenance and refurbishment.

corporate.lovell.co.uk

Urban Regeneration

£185.3m
Revenue

MUSE

Transforming the urban landscape through partnership working and the development of multi-phase sites and mixed-use regeneration.

museplaces.com

Business environment

Overview

The challenging general market conditions coming into the year continued to ease throughout, with inflation falling in most areas. We continue to focus on our core strengths in our target markets, and on long-term partnerships with our public and private sector clients.

Sectors contributing 5% or more of Group revenue

18% Community/other public services

5% Mixed-tenure housing

27% Commercial

19% Social housing

14% Education

6% Transport

A more manageable trading environment

The general trading environment in 2023, although still a headwind for the Group, became more manageable and predictable as the year progressed.

The ongoing stability of the supply chain, however, became more uncertain with liquidity issues increasingly common, requiring additional vigilance both preconstruction and during the delivery of projects. The risk is mitigated to some extent by the diligence taken before project commencement and the fact that no division is overly reliant on any one supplier.

In Construction and Infrastructure, where projects are currently underway, most include appropriate inflationary protection within the overall contract pricing and this is not seen as a significant risk. Where projects are being priced for future delivery, inflation continues to place some project budgets under pressure, which in turn has led to some delays in decision-making and project commencement. However, the impact of this has not been material and, in many cases, any client budget constraints are being addressed by adjustments to project scopes, thereby allowing projects to proceed.

The market for Fit Out's services has continued to be very strong, with a number of positive structural changes in the market. The main drivers of this include lease-related events, the requirement for greater energy efficiency from offices, the move towards more flexible and collaborative workspaces, the use of office space as a tool for enhancing staff retention and brand image, and office relocations away from London with clients requiring increasingly complex projects.

In Property Services, housing maintenance and the general state of repair of housing stocks are increasingly the focus for local authorities and housing associations. During 2023, the business was severely impacted by general cost and labour inflation which impacted the profitability of its contracts, resulting in a loss for the year.

The general UK housing market was difficult throughout the year; however, in Partnership Housing, the partnership model focusing on long-term partnerships with the public sector provided some level of resilience and cushion against the full impact. Although demand for contracting has remained strong, the division experienced a significant slowdown in its sales rates of private homes on its mixed-tenure sites, driven by the combination of economic uncertainty and the cost-of-living crisis, together with rising mortgage rates and the end of the Help to Buy scheme in England at the end of March. Alongside this there is the wider context of a continually challenging planning environment.

In Urban Regeneration, build cost inflation continued to provide challenges to the returns on some of its active developments and on the viability of some of its schemes being evaluated prior to commencement, although not material to the overall portfolio of schemes and their future financial performance.

Continuing to focus on our core strengths and target markets

We remain in the long-term growth areas we want to be in. Our capabilities continue to support the UK's current and future regeneration and affordable housing needs. Our recognised expertise and market positions in affordable housing (Partnership Housing) and mixed-use regeneration development (Urban Regeneration) reflect our deep understanding of the built environment developed over many years and our ability to provide solutions for complex regeneration projects.

Our Construction division's geographically diverse activities are focused on its key education, healthcare and commercial sectors, while through Infrastructure we are well-positioned to meet the demand for ongoing investment in the UK's rail, highway, energy, nuclear and water services. Around 77% of Construction and Infrastructure's work is in the public and regulated sectors.

Fit Out is the market leader in its field and delivers a consistently strong operational performance. Property Services remains focused on response and planned maintenance activities for social housing and the wider public sector.

Fit Out, Construction and Infrastructure generate cash resources to support our investment in affordable housing and mixed-use regeneration (see our business model on page 10). As part of our capital allocation framework, we are maximising investment in our current regeneration activities to accelerate their organic growth. Partnership Housing's growth potential remains substantial despite the short-term market headwinds. Its capital employed has increased significantly over the past five years, up from an average of £115m in 2018 to an average of £255m in 2023. The scalability of the partnership housing model provides the potential to further increase the capital employed significantly above current levels over the medium to long term. Urban Regeneration's capital employed has reduced slightly over the past five years, down from an average of £109m in 2018 to an average of £99m in 2023. However, based on its pipeline of opportunities and the investment profile of schemes already secured, the division's capital employed has the potential to increase modestly over the medium term.

In addition, in the short to medium term, the UK macro environment is expected to provide a number of potential opportunities to accelerate our long-term growth plans predominantly through bolt-on acquisitions. Any acquisition activity would likely be targeted towards our regeneration activities, primarily Partnership Housing. The focus would be on opportunities to complement our existing growth strategy by acquiring pre-existing development schemes, land options, positions in existing schemes from third parties or businesses which can complement or reinforce the division's position in the partnerships sector. Other potential acquisition opportunities across the Group's construction activities would only be considered where they would accelerate growth through the existing divisional structure and capabilities.

Business model

A balanced business creating long-term value in the built environment

Our capabilities are aligned with sectors of the UK economy which support the current and future demand for affordable housing, urban regeneration and investment in public, commercial and social infrastructure.

Our decentralised approach allows our specialist divisions to respond quickly to the needs of their markets and achieve the best outcomes for our stakeholders. See page 7 for detail on our divisions' services and markets and page 8 for an update on our business environment.

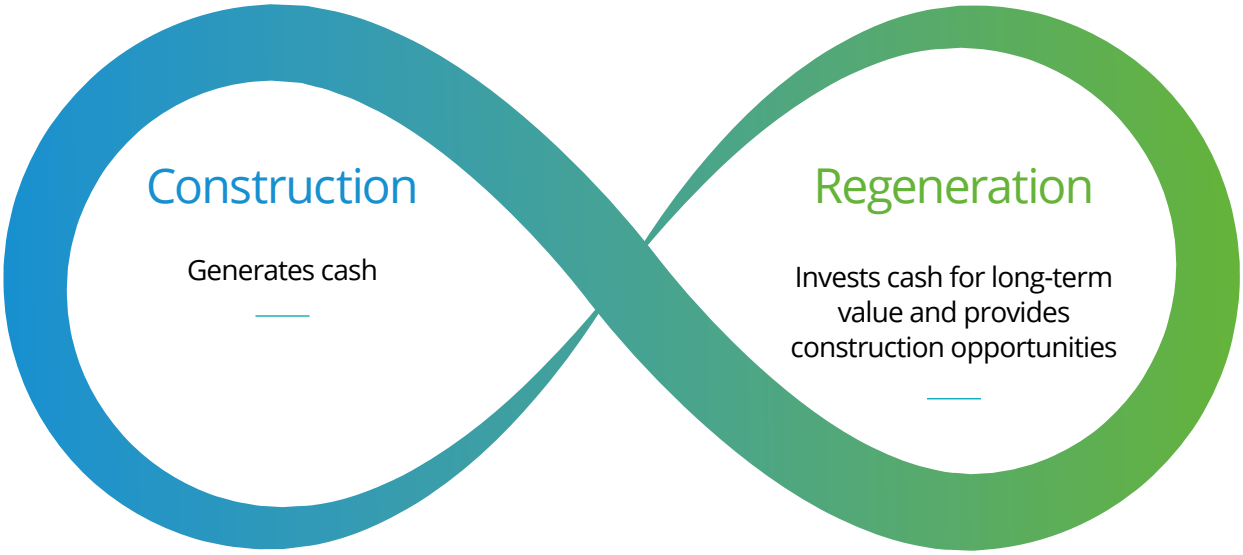
We use cash from our construction activities to invest in long-term regeneration schemes, which in turn provide opportunities for construction. More detail on investment in regeneration can be found on page 9.

For information on how we manage and sustain our resources, see pages 17 to 19 (our stakeholders); 20 to 44 (responsible business strategy and performance); 45 to 47 (financial review); 48 to 65 (operating review); and 66 to 79 (risk management).

1. Our valued resources

- Talented people
- A positive health, safety and wellbeing culture
- Long-term client relationships
- National network of supply chain partners
- Capability and experience in delivering environmental and social value
- Technology for innovation, efficiency and safety
- Strong balance sheet and a significant net cash balance

2. How we operate



3. Value we create

Transforming the built environment:

New housing, schools and colleges, commercial and critical services infrastructure, property services for social housing, and regenerated towns and cities.

High-quality projects:

92%

Perfect Delivery

Helping our people succeed:

674

promoted internally

Supporting our supply chain:

68.8%

invoices paid within 30 days

Social value:

73p

per £1 spent on 80 projects

Environmental value:

39%

carbon reduction since 2019

Shareholder returns:

114p

total dividend per share

Purpose, values and strategy

Focused on exceeding our stakeholders' expectations

Purpose

Harnessing the energy of our people to achieve the improbable

We are a group of complementary but very different businesses and every project is unique.

Through our highly decentralised philosophy, our people have the responsibility and authority to make the right decisions at pace.

We encourage our people to think differently and find better ways of doing things. This way we can keep exceeding our stakeholders' expectations, even as those expectations increase.

Values

Our Core Values define our culture and drive our purpose and strategy

The energy of our talented teams, together with our deeply held Core Values, enables us to exceed our stakeholders' expectations.

See page 6 for how our Core Values have been reviewed and updated, and pages 111 to 113 for how the Board monitors our culture and ensures it aligns with our purpose, values and strategy

Strategy

Organic growth for the Group through the exceptional performance of our businesses

Achieve quality of earnings by selecting the right projects aligned to our core strengths

Excel in project delivery for our customers and end users

Secure long-term workstreams, underpinned by our teams' strong and lasting client and partner relationships

See pages 13 to 15 for our performance against our strategic priorities and pages 69 to 77 for our principal risks

Keep innovating to find new and better ways of delivering on our Total Commitments:

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

Maintain financial strength, especially in adverse economic conditions, with a strong balance sheet, significant levels of cash, attractive dividend policy, and by investing in regeneration activities and growth

Key performance indicators

Continuing to make strategic progress

Strategic priorities	Key performance indicators (KPIs)	Medium-term targets or drivers	Performance commentary
Achieve quality of earnings	Construction operating margin[1,2] 23 **2.7%** 22 2.8% 21 3.2%	2.5%–3.0%	Construction achieved a good performance with operating margin midway through its target range. Infrastructure reported strong profit and margin growth and well exceeded the top end of the targeted range for its operating margin. Fit Out delivered an excellent performance ahead of its medium-term target, with profit and margin both increasing significantly. Property Services had a difficult and disappointing year, with operational and market challenges leading to the division making an operating loss. Partnership Housing experienced a softer housing market resulting in a reduced operating margin. However, the division was cushioned against the full extent of the market downturn by the resilience of its partnership model and an increase in revenue. Urban Regeneration made satisfactory progress with its long-term regeneration developments. See pages 48 to 65 for detailed commentary on each division's performance. **Priorities going forward** We will continue to operate in our target sectors and optimise the substantial potential for growth in our regeneration markets. We will also maintain our commitment to operational delivery and contract selectivity. In August 2023, Fit Out's medium-term target was upgraded to reflect its performance (see page 56). Property Services' medium-term target was downgraded and a remediation plan put in place to return the division to profit in 2025 (see page 59).
	Construction revenue[2] 23 **£966.6m** 22 £819.9m 21 £694.7m	£1bn	
	Infrastructure operating margin[2] 23 **4.3%** 22 3.8% 21 4.4%	3.5%–4.0%	
	Infrastructure revenue[2] 23 **£886.7m** 22 £767.7m 21 £829.5m	£1bn	
	Fit Out operating profit 23 **£71.8m** 22 £52.2m 21 £44.2m	£50–£70m	
	Property Services operating (loss)/profit[3] 23 **£(16.8)m** 22 £4.3m 21 £4.1m	£7.5m	
	Partnership Housing operating margin[4] 23 **3.6%** 22 5.4% 21 5.8%	8%	
	Partnership Housing return on average capital employed[4,5] (last 12 months) 23 **12%** 22 19% 21 21%	Up towards 25%	
	Urban Regeneration three-year rolling average return on capital employed[6,7] 23 **16%** 22 13% 21 12%	Up towards 20%	

Key performance indicators continued

Strategic priorities	Key performance indicators (KPIs)	Medium-term targets or drivers	Performance commentary
Excel in project delivery	**Projects achieving Perfect Delivery[8]** 23 92% 22 88% 21 88%	Each division is responsible for driving Perfect Delivery on its projects. Results are regularly monitored, reported and reviewed at divisional board level.	Our Perfect Delivery performance, at 92%, was improved from the prior year. **Priorities going forward** The divisions will continue to drive excellence by focusing on quality of delivery and customer experience.
Secure long-term workstreams	**Workload secured for the next three years** 23 £8,920.2m 22 £8,458.9m 21 £8,290.0m	We monitor our secured workload for the current year and beyond as well as the pipeline of projects for which we are 'preferred bidder' (where we have been verbally awarded the project but there is no formal contract or letter of intent in place).	We have a high-quality secured workload with 39% secured for 2026 or later. Within the Construction and Infrastructure divisions, over 95% has been secured through frameworks. **Priorities going forward** We will continue to focus on developing and maintaining long-term partnerships, working in sectors where we have a proven track record.
Maintain financial strength	**Average daily net cash** 23 £281.7m 22 £256.3m 21 £291.4m	Maintaining significant levels of cash gives us a real competitive advantage. Our cash levels are monitored on a daily basis.	We maintained a strong balance sheet and held significant cash balances at all times throughout the year. **Priorities going forward** The Board is committed to maintaining a strong balance sheet and significant net cash balances at all times.
Protecting people	**Lost time incident rate[9]** 23 0.24 22 0.22 21 0.29	0.21[10]	For detailed commentary on our performance in delivering against our Total Commitments, together with the actions we are taking and our priorities going forward, see pages 20 to 44.
Developing people	**Number of training days[11] per year per employee** 23 3.2 days 22 3.2 days 21 3.5 days	5 days[10]	

Key performance indicators continued

Strategic priorities	Key performance indicators (KPIs)	Medium-term targets or drivers	Performance commentary
Improving the environment	**Reduction in Scope 1 and 2 carbon emissions[12] from 2019 baseline of 20,903 tonnes CO_2e** 23 **45%** 22 45% 21 35%	30%[10]	For detailed commentary on our performance in delivering against our Total Commitments, together with the actions we are taking and our priorities going forward, see pages 20 to 44.
	Reduction in operational Scope 3 carbon emissions[12] from 2019 baseline of 6,339 tonnes CO_2e 23 **17%** 22 24% 21 45%	30%[10]	
	Reduction in wider Scope 3 carbon emissions[12] **New KPI from 2024**	The next target for this metric is set for 2030 (see page 31).	
	Supply chain (by spend) providing their own carbon data[12] 23 **£224m** 22 £649m 21 £589m	£500m[10]	
	Reduction in carbon emissions from the Group's vehicle fleet[13] from 2019 baseline of 12,078 tonnes CO_2e 23 **27%** 22 28% 21 39%	30%[10]	
Working together with our supply chain	**Percentage of invoices paid within 30 days** 23 **68.8%** 22 66.6% 21 67.8%	70%[10]	
Enhancing communities	**Average monetary value of social activities delivered per £1 spent** 23 **73p per £1 spent on 80 projects measured** 22 67p per £1 spent on 110 projects measured 21 71p per £1 spent on 112 projects measured	85p per £1 spent[10]	

1 Before exceptional building safety net charge of £11.5m (2022: £nil).
2 2021 and 2022 figures restated for revised business segments. See note 2 to the consolidated financial statements.
3 Before intangible amortisation of £2.9m (2022: £2.0m).
4 Before exceptional building safety charge of £nil (2022: £5.5m).
5 Return on average capital employed = adjusted operating profit divided by adjusted average capital employed.
6 Before exceptional building safety net credit of £13.7m (2022: charge of £43.4m).
7 Return on average capital employed = (adjusted operating profit plus interest from joint ventures) divided by adjusted average capital employed.
8 Perfect Delivery status is granted to Construction, Infrastructure and Fit Out projects that meet all four client service criteria specified by the division.
9 Number of lost time incidents x 100,000 divided by number of hours worked. Lost time incidents result in absence from work for a minimum of one working day, excluding the day the incident incurred.
10 Total Commitment targets in this table are for 2025 – see pages 20 to 44 for longer-term targets.
11 A training day is a minimum of six hours' training.
12 See Appendix on page 230 for definitions of types of emissions.
13 Vehicle emissions are also included in the Scope 1 emission data.

Note: Carbon data 2022 onwards includes BakerHicks's DACH operations (in Germany, Austria and Switzerland).

Section 172 statement

Making informed decisions

The Board and Group management team's objective is to promote the Group's success for the benefit of all stakeholders, in line with the directors' duties set out in section 172 of the Companies Act 2006.

How our directors perform their duties

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

See pages 111 to 113

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

See page 114

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

See page 115

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

See page 116

- The responsible business committee monitors our performance against our five Total Commitments to our stakeholders and wider society and reports to the Board on its activities.

See pages 132 to 134

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

See pages 110 and 118

Section 172 factor

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Our stakeholders

Understanding our stakeholders' priorities

We develop long-term relationships through close working and good communication.

The quick read...

- The Board engages directly with our people, shareholders, analysts and funders; our divisions manage their relationships with their people, supply chain, clients, partners and local communities
- The executive directors are kept informed of the divisions' stakeholder engagement via regular divisional board meetings, and update the Board as appropriate
- We have acted to improve employee wellbeing, launched a Supplier Code of Conduct, helped clients achieve their social and environmental objectives, and provided people living locally to our projects with work and training opportunities

Our key stakeholders are our people, supply chain, clients and partners, local communities, shareholders, and funders and performance bond issuers. Detail on the importance and priorities of these groups and how we engage with them on an ongoing basis is set out on pages 18 and 19.

Examples of our engagement activities and areas of focus in 2023 are summarised below.

Our people

All divisions took action during the year in response to feedback from their employees received via surveys undertaken in 2022 and 2023. Key areas of focus were career development, inclusion, increased interaction between colleagues, and wellbeing.

Examples of actions taken included: setting up a diversity and inclusion working group (Construction); creating an employee engagement group to develop an action plan prioritising physical and mental wellbeing and appreciation and connection (Infrastructure); developing career pathways for technical staff, clearly outlining skills required at each level (BakerHicks); increasing areas for quiet time and prayer and improving inter-departmental collaboration (Fit Out); creating a mental health awareness toolbox talk and toolkits for line managers (Property Services); increasing the number of mental health first aiders (Partnership Housing); and launching a hybrid and electric car salary sacrifice scheme (Urban Regeneration).

Detail of how the Board engages with employees can be found on page 18.

Supply chain

We continued to work closely with our supply chain to achieve high standards on our projects, and launched a Supplier Code of Conduct with guidance on our values and commitments. Our divisions continued to collaborate with their supply chains on carbon reduction (see page 39) and safety (see page 40).

Clients and partners

Engaging with our clients and partners before, during and after a project is critical if we are to exceed the quality and experience they are expecting. We also work closely with clients to help them achieve their social and environmental objectives. Fit Out's General Pharmaceutical Council (GPhC) project achieved an outstanding 200% of social value (audited by the consultant Advance Social Value), largely by using a local supply chain, and well exceeded GPhC's target of 12%. Lovell Later Living designs its homes based on extensive customer research and feedback. In response to customer concerns about leasehold arrangements and service charges typical to the retirement sector, the homes are being sold as freehold, with no estate or service charges or management fees.

Local communities

We engage with communities by providing training and work opportunities; working with schools and colleges to promote careers in construction; supporting local and national charities; and volunteering in community projects. Examples in 2023 included Construction providing carbon awareness training to over 800 students; Infrastructure delivering its 12th cohort of employability training and work experience for unemployed people in Cumbria; Fit Out raising over £9,000 for the Helen Bamber Foundation human rights charity; and Urban Regeneration's creation of 352 jobs for local people on its Manor Road project. See pages 41 to 44 for more detail on our engagement with communities.

Shareholders

Our executive directors held 16 meetings with major shareholders, advisers and analysts to discuss our 2022 performance and strategy, and 22 investor relations meetings following our 2023 half-year results, sharing feedback with the rest of the Board. We consulted with our largest shareholders on directors' remuneration following our AGM. See page 116 for how the Board engaged with shareholders during the year.

Funders and performance bond issuers

We secured an extension of our main bank facility by one year to 2026 and added provision for two possible further one-year extensions, with the agreement of the lending banks.

The stats and information you provided around ESG with recycling rates and percentage of waste diverted from landfill etc. were great. It's a really important focus for us and something we report on globally."

Marsh McLennan
Fit Out client

Our stakeholders continued

Our people

Over 7,000 employees whose passion and expertise enable us to achieve the improbable for our stakeholders.
A total of 37% of our people have been with the Group for six or more years.

Their key priorities

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

How the Group engages with them

- Formal induction programmes on joining;
- regular personal development conversations;
- updates on their division's business goals and market conditions, in person and online;
- digital interaction including intranets, social media platforms and staff benefit portals;
- 'innovation portals' where employees can submit ideas for business improvement or comment on specific topics;
- annual conferences communicating key messages and giving all employees an opportunity to speak to senior managers;
- Group-wide and divisional forums where employee representatives discuss issues relating to health and safety, human resources (HR) or climate action; and
- regular employee surveys, including communicating results and follow-up actions.

How the Board engages with them

- An email and video from the executive directors at full and half year, updating everyone on the Group's financial results;
- a Group-wide Savings-Related Share Option Plan (SAYE) that keeps people engaged with the Group's performance;
- site visits by non-executive directors as part of their annual divisional strategy reviews (see pages 114 and 116), where they meet with and are presented to by a mix of employees;
- attendance by Board directors at divisional employee conferences and the Group's two-day management conference;
- informal meetings between the Board and representatives from two divisions each year;
- presentations by divisional managing directors at Board meetings; and
- a review of how the divisions have sought and responded to feedback from their employees to ensure that their engagement remains effective.

Supply chain

A national network of selected suppliers and subcontractors, aligned to our values, who we regard as strategic, long-term partners.
Our strong relationships with our supply chain are essential to achieving superior project delivery and can give us a competitive advantage.

Their key priorities

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

How the Group engages with them

- Clearly written contracts setting out roles and responsibilities and agreed payment terms;
- site inductions and toolbox talks communicating our culture, values and standards, with discussions on topics such as safety, wellbeing and modern slavery;
- a dedicated Supplier Code of Conduct issued to our Morgan Sindall Supply Chain Family of suppliers and manufacturers and available on our website;
- newsletters and bulletins, and access to data platforms and online resources;
- constructive feedback and, where needed, guidance from the divisions on performance against set criteria;
- a Group networking event for suppliers held every two to three years, and divisional 'Meet the Buyer' events held regularly across the regions providing information on upcoming projects, procurement prospects, health and safety training opportunities, new technologies, and standards on sites;
- learning and support provided through the Supply Chain Sustainability School (see page 37); and
- our Group director of sustainability and procurement helps manage relationships with subcontractors and suppliers who work with more than one division.

How the Board engages with them

- Regular review of the divisions' payment practices, health and safety statistics, and strategies and actions to prevent modern slavery; and
- the executive directors being updated on supply chain relationships at the monthly divisional board meetings and keeping the Board informed of any matters of interest or significant issues.

Our stakeholders continued

Clients and partners

Our clients come from public, commercial and regulated sectors and our partners include local authorities, landowners and housing associations. In addition, we consider the needs and interests of the end users of the spaces and infrastructure we create. Securing work through partnerships, frameworks and repeat business is key to our organic growth strategy.

Their key priorities

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

How the Group engages with them

- National coverage and decentralised approach that enable us to engage locally, tailor our services and respond quickly;
- maintaining regular dialogue to help us understand our clients' and partners' priorities and to ensure that we have the skills and capabilities for their projects;
- keeping clients and partners informed throughout the project;
- a strong focus on the customer experience;
- feedback interviews and questionnaires, with results shared with the project teams and analysed by divisional managing directors; and
- recording clients' satisfaction levels, using metrics such as Perfect Delivery.

How the Board engages with them

- Executive directors being kept informed of client and partner relationships at their monthly divisional board meetings and updating the Board on matters such as key contracts or new relationships.

Local communities

Those who live or work near our projects as well as wider society.
Local residents are a potential source of recruits and local suppliers provide valuable local knowledge.

Their key priorities

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

How the Group engages with them

- Liaison with local residents by dedicated teams before and during projects;
- planning consultations on all projects and phases;
- social enterprises that offer training, employability skills and work opportunities;
- partnering with schools to present construction as a career option; and
- supporting local charities and taking part in local charitable events.

How the Board engages with them

- Executive directors being kept informed of community initiatives at their monthly divisional board meetings and updating the Board on any matters of interest.

Shareholders

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

Their key priorities

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

How the Group engages with them

- Regulatory news, the Group website and the annual report;
- private meetings and correspondence between the executive directors and institutional shareholders and analysts during the year and following results announcements;
- presentations by the executive directors on the full- and half-year results, with a video link so that those unable to attend can take part in a live question and answer discussion;
- we invite all shareholders to attend our AGM and vote, and encourage them to submit questions to the directors in advance if they are unable to attend; and
- our chair, senior independent director and committee chairs are available to meet with shareholders at any time.

How the Board engages with them

- Circulation of any written feedback from investors and analysts to the Board, and communication of any verbal feedback at Board meetings;
- dialogue with investors on directors' remuneration; and
- circulation of feedback and reports from Institutional Shareholder Services, the Investment Association, and Pensions & Investment Research Consultants to the Board ahead of our AGM each year.

Funders and performance bond issuers

Our funders and performance bond issuers provide us with access to competitively priced banking, bonding and debt facilities.
Performance bonds, often known as surety bonds, are issued by a financial institution to guarantee completion of a contract.

Their key priorities

Robust management of working capital and risk.

How the Group engages with them

- Regular meetings between the Group's finance director and director of tax and treasury with our banks and performance bond issuers, including following the full- and half-year results, to update them on the Group's performance and discuss any expectations they may have.

How the Board engages with them

- Reports from our finance director to the Board on any updates relating to the Group's funding arrangements.

Responsible business strategy and performance

A responsible business strategy that's meaningful to our stakeholders

Despite global challenges and uncertainty, we remain committed to our responsible business strategy, and in 2023 we updated our Core Values to include acting responsibly. We help develop a more sustainable future by enabling our people to achieve their potential, enhancing wellbeing, generating value for communities, and leaving the environment not only unharmed but in a better condition, including net biodiversity gains. We take pride in enlivening existing places and creating new ones, thereby contributing to a brighter future for our towns and cities. To achieve this, we embrace the latest industry best practices, listen to community needs, operate transparently, and embed accountability in our governance.

Our responsible business strategy is driven by our Total Commitments which address ESG issues most material to the Group. It supports our other strategic objectives: for example, by prioritising the development of our teams, ensuring a safe working environment, and working closely with our supply chain, we can deliver excellence on our projects; and we are more eligible to secure long-term workstreams if we can help clients achieve their decarbonisation and social value goals.

We measure our success against our Total Commitments using clear KPIs. We periodically review our targets and metrics to ensure they remain ambitious and relevant and continue to reflect a culture of transparency and accountability.

In 2023 we reaffirmed our commitment to net zero by realigning our science-based targets with a 1.5°C scenario.

We continue to progress towards our target of reducing Scope 1, Scope 2 and operational Scope 3 emissions by 60% by 2030 and have added a target to meet 90% reduction by 2045 with only 10% of emissions being offset. In addition, we have extended our Scope 3 targets to include wider as well as operational Scope 3, aiming to achieve a 60% reduction in wider Scope 3 emissions by 2045. See the Appendix on page 230 for detailed definitions of types of carbon emissions.

Our climate ambition was recognised in 2023 when we won an award for Net Zero Innovation of the Year at the edie Awards for climate leadership. The award was for our 'Growing Natural Capital' project in the Dorn Valley Woodlands in partnership with the Blenheim Estate (see page 35). We have maintained a CDP A leadership score for our carbon reduction disclosures since 2020.

In 2023, we delivered 73p of social value per £1 spent on 80 projects, as measured by our Social Value Bank, £33.3m as measured by the Social Value Portal, and £7.4m (in 2022/2023) as measured by HACT, the Housing Associations' Charitable Trust (see page 44). This reflects our local procurement and recruitment practices, collaboration with local community organisations to maximise volunteering and charity initiatives, and upskilling employees, subcontractors and local people to create economic opportunity.

More information on our industry recognition and our performance against a wider set of responsible business metrics is contained in our responsible business data sheet on our website (see Investors/Reports and presentations).

Our material issues

- Physical and mental health, safety and wellbeing
- Fair employment and no modern slavery

- Diversity and inclusion
- Employee capabilities strengthened and expanded
- Youth training and employment

- Net zero progress
- Protecting ecosystems
- Zero avoidable waste

- Resilient, responsible and engaged supply chain
- Diverse and local supply chain, including small- and medium-sized enterprises (SMEs)

- Positive environmental and social outcomes

- Ethical business and governance

2023 materiality assessment

Every two years we conduct a materiality assessment to identify the ESG issues our stakeholders consider most important over the medium term, which helps us plan our business for the future. In addition to the assessment, we have continued to monitor the importance of key issues within specific industry sectors and society in general.

We began our 2023 assessment by conducting a comprehensive, online survey based around the Future-Fit Business Benchmark methodology, which links to the UN Sustainable Development Goals. To assess the Group's double materiality[1], the survey was also informed by the Global Reporting Initiative's sustainability context principle and the Sustainability Accounting Standards Board's five-factor test.

In total, 2,680 people completed the survey, including 2,125 employees and 555 external stakeholders. The initial findings were used to guide 11 in-depth interviews with industry thought leaders and stakeholder representatives to explore each identified issue in more depth.

The results of our assessment are illustrated below and the issues considered material are shown in the diagram on page 20. Many issues identified as material relate to one or more of our Total Commitments, reaffirming that these are the right areas to be focusing on. Our material issues are important to our stakeholders and therefore to the business. While none have been identified as financially material, they shape our ability to generate long-term value for the Group.

1 The concept of 'double materiality' refers to how information disclosed by a company can be material both in terms of its implications for the company's financial value and its impact on the world at large (environment and society).

Importance to stakeholders	Not material	Unlikely to be material	Close to being material	Material
Material		▪ Resilient, responsible and engaged supply chain	▪ Fair employment and no modern slavery	▪ Physical and mental health, safety and wellbeing ▪ Net zero progress ▪ Ethical business and governance
Close to being material		▪ Zero avoidable waste ▪ Positive environmental and social procurement outcomes ▪ Diverse and local supply chain (SMEs)	▪ Protecting ecosystems	▪ Employee capabilities are strengthened and expanded ▪ Diversity and inclusion ▪ Youth training and employment
Unlikely to be material		▪ Enhanced community health and wellbeing ▪ Mitigation and adaptation to climate change		
Not material	▪ Water use is minimised and socially equitable ▪ Air quality is maintained to highest standards			

Importance to the business

Protecting people

Providing our employees and subcontractors with a *safe and healthy* work environment, and supporting their physical and mental wellbeing.

The quick read...

- Actions taken to promote safe behaviours
- Initiatives to support people's physical and mental health and wellbeing
- Continued focus on raising awareness of signs of modern slavery and audits to verify right to work
- Accreditations maintained in ISO 20400:2017 Responsible Procurement and ELS BES 6002 Ethical Labour Sourcing standards

Health and safety

Despite an unwavering commitment to safety from our divisions, our number of lost time incidents increased from 104 in 2022 to 119 in 2023, our RIDDOR[1] accidents increased to 37 (2022: 28), and our accident frequency rate increased to 0.08 (2022: 0.06). Key causes of incidents have continued to be trips, slips and cuts, and materials handling and storage.

The decline in our performance is due in part to our standards and procedures not consistently being adhered to. We have continued to reinforce the message to our workforce that they should always prioritise their own safety and that of their colleagues, no matter the circumstance. Maintaining vigilance on sites is particularly important as workloads increase and new employees and subcontractors join our projects. Our Group health and safety forum, renamed our 'protecting people forum', met six times during the year to discuss safety performance, best practice and lessons learned. In addition to the forum, we have introduced monthly meetings of health and safety leads from across the divisions to discuss any immediate issues as they arise.

Despite these actions, there is more we must do to achieve our ambition of zero incidents. In 2024, our senior leaders will review technological solutions to support site supervision, such as the ability to identify potential risks on site in real time. They will also look at leading indicators that can provide greater insight into potential risk.

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

2023 performance and future targets

2023
0.24
lost time incident rate[1]

2025 target
0.21

2030 target
0.18

Horizon ambition
Zero incidents

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

Responsible business strategy and performance continued
Protecting people

Promoting safe behaviours

When an accident occurs or a potential incident is identified, an investigation is conducted so that lessons are learned. Corrective actions may include updates to policies and procedures, additional or refresher training for employees and/or subcontractors, and learning bulletins published to all relevant employees. In addition, disciplinary action will be taken, such as, where necessary, removing people from site who repeatedly fail to follow our procedures. Frequent audits of our policies and procedures are a key element of standard business practices for each of our divisions and an opportunity to demonstrate that best practices are in place and consistently followed; no incidence of non-conformance was recorded in 2023. All our divisions have maintained their ISO 9001 and 45001 accreditations.

The divisions took the following steps during the year to promote safety awareness and raise standards:

- **Construction** launched a new visual standards app for site managers with walkthrough guides and videos, and introduced immersive-learning headsets that bring safety hazards to life. The division embedded a new digital permit system that has helped reduce buried services strikes from 13 in 2022 to seven in 2023; held a 'Stop the Drop' event on preventing objects being dropped on site; and provided tool tethering for all workers.
- **Infrastructure** produced a new catalogue that streamlines and speeds up the process for ordering personal protective equipment, and launched a new toolkit on working safely in higher temperatures during the summer.
- **Fit Out** made it mandatory for project and site managers to use its H&S Plus app on at least one site inspection per week and attend regular recorded toolbox talks, daily activity briefings and 'Safe Start' briefings. The division also launched an on-site health and safety training course for site supervisors, including agency and supply chain supervisors. The course uses an engaging 'spot the hazard' video that has stimulated dialogue and collaboration between different subcontractor trades on site. Fit Out introduced an induction/refresher course for new starters and an incident reporting course, both of which communicate every site worker's responsibility to comply with safety regulations and ensure their colleagues are doing the same.
- **Property Services** developed new risk assessment and management systems specific to trades and roles that include 30 mandatory rules and activities referred to as 'red lines', and provided training on using them. The division also rolled out a new asbestos awareness and management course tailored to the challenges encountered in social housing, and introduced its first health and safety survey, the results of which shaped a new campaign to address near misses and promote safe behaviours.
- **Partnership Housing**, in response to the decision by the Construction Skills Certification Scheme to discontinue its industry accreditation card scheme by the end of 2024, created its own health, safety and environment test for employees who work on or regularly visit projects but do not already hold specified accreditations. The division also introduced new mandatory training on buried services and daily briefings with groundwork supervisors.

Physical and mental wellbeing

Our goal is to provide an environment where all employees feel safe and supported and where physical and mental health are regarded with equal importance. We offer a comprehensive benefits package that includes a digital GP service, employee assistance programme providing legal and counselling services, financial education, group income protection, private medical insurance, online portal with access to retail deals and discounts, and an annual paid volunteering day.

Our strategy in action

Protecting each other

Infrastructure has developed a new standard, 'Protecting People', to reinforce a working environment where everyone is responsible for helping to protect the health, safety and wellbeing of their colleagues.

The standard consists of five core components: a culture of care and respect; people feeling safe to speak up and speak out; sites being manned with highly trained and experienced people equipped with the tools and resources they need; colleagues being able to learn from each other and improve; and great performance being celebrated.

The Protecting People standard was launched at Infrastructure's senior team conference in November 2023 and rolled out to all business units in December through briefings and training sessions. Interactive workshops and a maturity assessment are scheduled for early 2024.

Responsible business strategy and performance continued
Protecting people

In 2023, 68% of employees were covered for private medical services and 96% for life assurance, and 81% were registered with our Group pension scheme. In 2023, we transferred our pension scheme to a new provider that offers flexible retirement options and a wide range of online tools and support.

Our divisions have continued to hold a variety of health-related awareness weeks and campaigns throughout the year. The frequent and repetitive nature of these events ensures that prioritising health and wellness remains embedded in our culture. We have noticed an increase in employees taking part, due both to the ongoing economic environment and the efforts of our divisions in making sure everyone is aware of the support and advice on offer.

Outlined below are examples of new and expanding initiatives by the divisions during the year:

- **Construction** was awarded an Investors in People (IIP) health and wellbeing accreditation in 2023, achieving Gold standard. The division increased its number of mental health first aid instructors from three to five and continued to provide mental health first aid training around the country to employees and the supply chain. Construction's online supply chain 'Academy' ran a webinar on sleep, which is closely connected with mental and emotional health.
- **Infrastructure** also achieved a Gold award from IIP for health and wellbeing. The division held a mental health first aid conference during the year, focusing on self-care, stress management, and suicide awareness and prevention.
- **BakerHicks** launched a Virgin Pulse Go app that encourages users to make small, sustainable changes to improve their health and wellbeing. Early assessments have demonstrated that 57% of employees feel happier by increasing social connections and 66% have improved their physical activity levels. BakerHicks is working to promote the services of its mental health first aiders to employees. The business's Virgin Pulse Go platform recorded that 78% of users said they had improved their ability to cope with stress and mental health.
- **Fit Out** set up a network of wellbeing committees and is developing a new wellbeing intranet site with an animated video explaining the resources available. The division also introduced discounted gym memberships and free annual health checks and registered 41 new participants in its cycle-to-work scheme. Fit Out now has 94 employees who are qualified mental health first aiders (2022: 62).
- **Property Services** introduced a healthcare cash plan for over 65% of its employees, which was promoted via a mobile text campaign, and renewed its 'Works Perks Wellbeing Hub', publishing blogs throughout the year that resulted in employee engagement increasing to over 100 views per month. The division also set up a new process for reporting absences that will help analyse the main causes and make future wellbeing initiatives more targeted. Property Services renewed its disability-confident employer status and Domestic Abuse Housing Association accreditation and launched a mental health toolbox talk pilot programme, with in-person sessions attended by 130 operatives and recorded talks made available to those unable to attend. The division also held a half-day mental health awareness training session for over 100 line managers and renamed its performance reviews as 'performance and wellbeing conversations' to encourage more holistic conversations between employees and managers. To date, over 200 such conversations have taken place.
- **Partnership Housing** was co-winner at the Business Culture Awards 2023, for 'Best Brand and Values Initiative' in recognition of 'The Lovell Way', which focuses on treating employees and customers with respect and empathy.
- **Urban Regeneration** has trained additional mental health first aiders and held 'lunch-and-learn' sessions including meditation exercises to help manage stress.

The importance of enhancing wellbeing extends beyond our employees and supply chain to the users of our buildings and spaces. All divisions are involved in developing WELL Building, BREEAM (Building Research Establishment Environmental Assessment Method) or DREAM (Defence Related Environmental Assessment Methodology) rated projects that require health and wellbeing to be integrated into a building's design and functionality. The WELL standard assessment considers seven concepts: air, water, nourishment, light, fitness, comfort, and mind. As part of the certification process, we demonstrate how our designs, selected materials and technologies contribute to the achievement of set goals, many of which exceed government standards. The BREEAM UK assessment focuses on visual comfort, indoor air quality, thermal comfort, acoustic performance, security, and healthy surroundings. In 2023 our divisions either completed or worked on 161 projects certified or expected to be certified under the scheme.

Human rights and modern slavery

Our policies and due diligence

Our human rights policy states our support of the UN Guiding Principles on Business and Human Rights and the Universal Declaration of Human Rights, and our commitment to the human rights principles of diversity, non-discrimination and non-harassment; prevention of human trafficking, forced labour and child labour; workplace health and safety; freedom of association; the adherence of our supply chain to human rights principles; and engagement with our stakeholders and consideration of their views. The policy was approved by the Board in August 2022 and applies to the Group, our subsidiaries, and the entities in which we hold a majority interest. We are also committed to the freedom of association and collective bargaining of our employees, and currently 3% of employees are covered under such a scheme.

Our Group Code of Conduct sets out how we should act when engaging with our clients, colleagues and suppliers. The Code states our commitment to the Universal Declaration of Human Rights, providing equal opportunities, creating a diverse and inclusive workplace, and preventing modern slavery in our operations and supply chain. It prohibits employing people directly or through third parties who we believe to be subject to forced labour and engaging in any activities involving people or countries subject to UN, US, EU or UK sanctions. It also prohibits bullying, harassment and discrimination on the basis of sex, pregnancy or maternity, gender reassignment, sexual orientation, religion or belief, marriage and civil partnership, age, race or disability; and requires fair and objective employment decisions based on merit.

Our modern slavery policy states our and our suppliers' obligations with regard to human trafficking, forced labour, recruitment fees, document retention, contracts of employment, deposits, humane treatment, workplace equality, wages and benefits, working hours, freedom of movement, personal freedom and use of employment agencies.

Responsible business strategy and performance continued

Protecting people

Our human rights and modern slavery policies and Code of Conduct are available on our intranets and website. All employees, including senior management, are required to complete e-learning on modern slavery and our Code of Conduct. Site inductions include 'toolbox talks' to raise awareness of modern slavery among our employees and site workers employed in our supply chain.

Our divisions are responsible for their employees' and suppliers' compliance, supported by our Group director of sustainability and procurement, Group commercial director, general counsel, company secretary and Group head of audit and assurance. Adherence to the policies is regularly monitored and reviewed, with the Board audit committee and Group general counsel having ultimate oversight.

If any employee or subcontractor has a concern or grievance, or is witness to an event that does not conform to our Code of Conduct or modern slavery policy, they can communicate anonymously and in confidence via our whistleblowing service operated by Safecall, an independent third party. They can get in touch by phone, email or the service's website 24 hours a day, 365 days a year. Our whistleblowing procedures are explained to all employees and subcontractors on induction, repeated in every e-learning course and published on our intranets and office and site notice boards. Our intranets also contain a direct link to the whistleblowing reporting page. Once a report has been logged by Safecall, we escalate the investigation to the appropriate internal personnel and ensure that all potential incidents are addressed. The Board is also notified of any reports of non-compliance. See page 116 for information on concerns raised in 2023.

Managing the risk

While human rights breaches are not considered a principal risk to the Group, we recognise that there is a risk of a breach by an overseas supplier or that there may be workers on our sites without the legal right to work in the UK. We are committed to monitoring this issue in our and our suppliers' operations, adopting best practice and industry programmes, and communicating any incidents should they occur.

We proactively manage the risk of modern slavery and human trafficking by reducing the likelihood of it happening either in our own operations or those of our supply chain. We do this through risk assessments, due diligence, supply chain engagement, industry collaboration and, where needed, remediation. We require all suppliers to comply with legislation and to carry out checks on the right to work, and we expect that they require the same of their own suppliers.

We maintain our accreditations in ISO 20400:2017 Sustainable Procurement and ELS BES 6002 Ethical Labour Sourcing standards which further confirms that our due diligence and risk management processes include accountability, transparency and a respect for human rights.

We use the following KPIs to assess our performance relating to modern slavery: employee training; investigations undertaken into reports of modern slavery and remedial actions taken in response; and the evaluation of our labour practices as part of our ELS BES 6002 assessment.

The Board annually reviews the approach and progress of work undertaken by management and the divisions to identify areas where there is any risk of human trafficking and modern slavery in our business, prior to approving the Group's modern slavery statement.

In 2023, our investigations found no instances of modern slavery.

Our activities in 2023

While our processes are fit for purpose, we have remained vigilant. In 2022 we commissioned a modern slavery assessment by anti-slavery charity Unseen, and in 2023 put in place an action plan to implement their recommendations. At a Group-wide level, we produced and distributed a Supplier Code of Conduct, which aligns with our employee Code of Conduct and sets out the obligations and responsibilities of suppliers to uphold our Core Values and the law, including on modern slavery. The Supplier Code of Conduct can be found on our website. Our divisions took the following measures:

- **Construction** circulated new posters in a wider range of languages focusing on identifying modern slavery and how to report any concerns. The division provides modern slavery training via its supply chain Academy and conducted 15 modern slavery audits in 2023. Construction is working with its labour desk to develop a quarterly report confirming addresses and verifying passports, to ensure that everyone on its sites has the right to work in the UK.
- **Infrastructure** developed a 'report and support' app for use by anyone on site as an extra resource to help identify modern slavery risks or concerns. The division also reviewed and updated its grievance, whistleblowing, and harassment policies.
- **Fit Out** ran modern slavery awareness campaigns during Modern Slavery Week in October. This included ensuring that all sites were displaying modern slavery awareness posters showing signs to look out for and helpline numbers to call. The division has continued to monitor its labour agencies, who are deemed to be high risk, and audit its preferred suppliers' processes and procedures.
- **Property Services** set up a modern slavery working group which developed a template for auditing the supply chain to avoid modern slavery. The division is preparing an enhanced prequalification questionnaire when bringing new subcontractors on board, with additional questions on modern slavery, employment rights, the Equality Act and compliance with the real living wage.
- **Partnership Housing** increased its commercial and operational audits to ensure that all subcontractor site workers were attending inductions, employees were completing their modern slavery training, and vendor registration forms and subcontract orders were being correctly completed. Following the audits, the division issued non-conformance notices to a small number of subcontractors who were found to have inadequate right-to-work controls in place, such as undated copy ID documents. One operative was found to be working illegally, removed from site and reported to the Home Office by the subcontractor. The division shared the audit findings across the business and will be conducting regular spot checks on right-to-work controls to help subcontractors improve their processes.

Further details on our commitment to and performance in preventing modern slavery can be found in our 2022 statement, which was approved by the Board in May 2023 and is available on our website. Our 2023 statement will be uploaded to our website no later than June 2024.

Developing people

Nurturing an *inclusive* work environment where everyone feels respected and has access to the resources they need to achieve their personal ambitions, deliver the best outcomes for our clients and drive the business forward.

We are committed to attracting, developing and retaining a diverse range of people, making sure they feel included and have access to the resources and support they need, and providing them with clear paths to progressing their careers. We offer collaborative work environments, flexible working arrangements, consistent training opportunities and mentorship across all levels of the Group to help develop skills and opportunities. We work closely with education providers across the UK to show young people the many pathways into the industry. We monitor our retention rates and encourage dialogue to ensure we are providing every employee with a rewarding and satisfying workplace.

Four of our divisions have maintained their Investors in People accreditations: Construction holds Platinum status and Infrastructure, Partnership Housing and Urban Regeneration each hold Gold status. Urban Regeneration has received a 'Great Place to Work' accreditation for the second year running as well as 'Great Place to Work for Women', as featured in Elle magazine in July 2023. Also in the year, Construction became one of the first three construction companies to achieve Member status of the Greater Manchester Good Employment Charter based on the criteria of work security and flexibility; pay; engagement and voice; recruitment; people management; and health and wellbeing.

The quick read...

- Maintained Investor in People accreditation and achieved one for 'Great Place to Work'
- Collaborated with national networks and educational institutions to attract a more diverse talent pool
- New and enhanced inclusion awareness training for employees and management
- A continued commitment to skills and leadership development
- Work experience, training and apprenticeships for young people

2023 performance and future targets

2023
3.2
training days[1] per employee on average

2025 target
5 days

2030 target
6 days

Horizon ambition
7 days

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

Responsible business strategy and performance continued

Developing people

Diversity and inclusion

We consider diversity in the broadest sense, including age, gender, ethnicity, culture, socio-economic background, disability, and sexuality, and are committed to fostering an equitable work environment, prohibiting any form of discrimination, and giving full and fair consideration to all job applicants. Diversity of outlook and experience helps challenge the status quo, drive innovation, increase productivity and achieve long-term success. We commit to making reasonable adjustments to the roles and responsibilities of disabled employees, and offer the training and support they need for their career progression.

Our divisions continue to work with industry bodies and initiatives to attract the best people into the industry. This includes the 5% Club, a national campaign to generate opportunities for graduates and apprentices. The table below shows employees in the Group making up the 5% Club.

	2023	2022
Apprentices	**359**	280
New graduates recruited	**82**	78
Sponsored students	**42**	67
Total structured trainees	**483**	425
Percentage of total employees[1]	**6.4%**	6.0%

1 Based on number of UK employees at 31 December.

We have maintained our national partnerships with Women into Construction (WiC), Working Families/Working Mums, BPIC (Black Professionals in Construction) and BuildForce UK. These networks enable us to reach a wider audience on the benefits of a career in construction, including those who may have a different perception of what it is like to work in our industry. In 2023, we signed up to the Armed Forces Covenant, a pledge to treat reserves or those who have served, and their families, with fairness and respect. We became a Silver award holder in the Defence Employer Recognition Scheme and are aiming for Gold in 2024.

We are pleased to have seen some of our efforts recognised. For example, Infrastructure has been listed as one of The Times Top 50 Employers for Gender Equality 2023. This accolade recognises employers who are making gender equality part of their business strategy. Applicants are assessed on activities that include flexible working, family-friendly policies, pay and reward, and progression at work.

Examples of how our divisions have promoted diversity across the business in 2023 are as follows:

- **Construction** introduced a new diversity and inclusion working group whose early outputs included re-launching the division's 'Instinctively Inclusive' learning modules and increasing the number of its Fairness, Inclusion and Respect (FIR) ambassadors. Construction also joined the Department for Work and Pensions Social Mobility Pledge Consortium, which commits to providing work and training opportunities for carers, ex-offenders, homeless people, survivors of domestic abuse and people with disabilities.
- **Infrastructure** reviewed its guides and policies to increase awareness of diversity and inclusion, and worked with its 'Inclusion Impact Group' to make job postings and interview processes more inclusive. The division also extended its 'Inclusive Leadership' programme, attended by 125 senior leaders in 2022, to its remaining 500 line managers; launched a women's hub and several ally networks for groups such as LGBTQ+, carers and armed forces; introduced transferable bank holidays for people with differing religious beliefs; and launched a 'support and report' app for employees to log any unacceptable behaviour – four incidents were recorded in the year and forwarded to the appropriate management.
- **BakerHicks** is a member of the Inclusive Employers organisation, and in 2023 introduced training on topics such as ADHD, autism, neurodiversity and dyslexia to increase awareness and understanding. All line managers and recruiters were required to undergo training in inclusivity and unconscious bias, and the business is developing an interactive e-learning course on equality, diversity and inclusion which will be mandatory for all employees.
- **Fit Out** introduced a 1.5-hour dignity at work/respectful behaviour workshop, led by an external legal counsel. The session was piloted with senior managers and then extended across the business, with 160 employees having completed it to date.
- **Property Services** launched a new recruitment toolkit with information on increasing diversity and widened its guaranteed interview scheme to include applicants who have previously taken part in its social value initiatives, such as for disabled people or ex-military personnel.
- **Urban Regeneration** customised its HR system to capture a broader range of employee diversity data, including education, caregiving responsibilities, socio-economic background and religious beliefs. The division hopes the data can be used to design more targeted diversity and inclusion initiatives.

Further information on diversity and inclusion can be found in the nomination committee report on pages 120 to 121.

Responsible business strategy and performance continued
Developing people

Gender pay gap

Our 2023 median gender pay gap is 29.0% (2022: 30.6%). The gap remains high and reflects a higher number of senior male employees in the Group. Women make up 12% of the upper pay quartile (2022: 11%) compared to 38% (2022: 39%) in the lower quartile. We must persist in our efforts to change women's perceptions of working in the construction industry and help more of our female employees progress into senior positions, although this will take time. Our divisions have undertaken the following to address our gender pay gap:

- **Construction** has continued its engagement with university partnerships to attract female candidates into the industry and the strategy is yielding benefits. In the North West, the division achieved a 50:50 gender balance in its early career programme intake.
- **Infrastructure's** rail team took part in WiC's first employment programme in the North East. Participants received construction and employability training, work placements, site visits and coaching and support from WiC, and one participant secured an apprenticeship with Infrastructure. The division also updated its flexible working policy during the year and introduced guides for line managers on topics such as managing pregnancy and maternity, and supporting people experiencing menopause. Infrastructure also introduced training on how to identify signs of domestic abuse, attended by 145 line managers.
- **BakerHicks** set up a working group which will review family policies and procedures, benchmark them against peers, recommend updates and develop a return-to-work scheme for new parents. The group is made up of men and women of varying levels of seniority, and includes parents and other types of caregivers so that 'family' is defined in its broadest sense.
- **Fit Out** formed educational partnerships with several all-girl schools, showcasing potential roles and opportunities traditionally associated with men. The division also introduced additional family policies, including a fertility policy, and is reviewing its maternity, paternity, and adoption policies to enhance terms.
- **Urban Regeneration** continued to increase work experience and apprenticeship opportunities for women and introduced paid leave for any employee undergoing IVF. The division extended its paid paternity leave and maternity benefits.

Skills development

We are committed to investing in developing our people so that they can maximise their potential, feel fulfilled in their roles and progress their careers. During the year, we moved our e-learning to a more dynamic platform, significantly extending the range of courses we can offer and improving our ability to capture statistics related to time spent on training. The divisions undertook the following:

- **Construction** completed its 24-month Senior Business Leader Programme in partnership with Cranfield School of Management for 65 employees, which included learning and development on resilience, capacity, and innovation.
- **Infrastructure** developed a competency management system (CMS) to ensure everyone has the right level of training, information, skills and knowledge to carry out their work safely and to the best of their ability. The CMS produces a personalised career development plan for every employee and, in addition to training, provides support materials and the services of a superuser. The system can perform a gap analysis on skillsets within the business to assist with planning and budgeting for training and mobilising talent to resource the pipeline of work coming in. To prepare for future digital skills requirements, Infrastructure partnered with specialist data and digital training provider Multiverse to set up an innovative virtual 'Infrastructure Data Academy' available to all employees, with the first cohort completing training in 2023.
- **BakerHicks** developed career pathways for all technical areas outlining the skills and experience required at each grade. The division is rolling out a new learning management system with dedicated training and development programmes for each discipline/sector.
- **Fit Out**, in response to the Construction Skills Certification Scheme discontinuing its industry accreditation card scheme by the end of 2024, supported employees in pursuing additional professional qualifications. The division also introduced a 'Perfect Delivery and Exceptional Experiences' leadership programme.
- **Partnership Housing** introduced a new sales executive development programme, aimed at recruits with no previous house-selling experience and paralleling a Level 4 sales apprenticeship. In addition, 92% of employees have completed the 'New Homes Quality Code' training, a new standard which aims to improve the quality of new-build homes and strengthen protections for customers.
- **Property Services** developed a competency matrix of the minimum qualifications and training required for all site-based roles, which will be used in recruitment procedures and performance reviews to identify training gaps. The division introduced a new performance review toolkit and launched a 'Data Academy' to improve data literacy across the business.
- **Urban Regeneration** introduced curated 'people plans' for every employee, setting out plans for training, development and promotion.

Youth training and employment opportunities

We provide work experience, training and apprenticeship opportunities for people local to our projects, and work with educational institutions to invest in training and work opportunities for young people. Examples of how we achieved this in 2023 are as follows:

- **Construction** hosted 12 T-Level students from the Manchester College representing diverse ethnicities and backgrounds and an equal gender mix. T Levels allow those interested in the built environment to gain first-hand experience in career options open to them in the industry.
- **Infrastructure** was awarded a Bronze Excellence Mark by the Skills Builder Partnership for developing a new programme for early careers recruitment. The Skills Builder Partnership is a social enterprise that works to ensure everyone has the skills they need. As a result of its new early careers programme, the division saw a 170% surge in high-quality applications for its apprenticeship scheme.
- **BakerHicks** implemented a mentoring scheme for graduates and is developing 'early careers ambassadors' who will provide additional support.
- **Fit Out's** young leadership group, 'The Succession Collective', ran their first professional development session, on communicating with impact and influence, in partnership with RADA Business. The division's Foundation Programme, which provides tailored training and mentoring for graduates and apprentices, welcomed 28 new apprentices in 2023. This brings the total to 149 young people since the programme began in 2014, 77% of whom are still with the business.
- **Partnership Housing** has partnered with Network75, a work experience scheme run by the University of South Wales. In 2023, eight part-time students taking construction-related degrees participated in the scheme.
- **Urban Regeneration** formed a new partnership with Oldham College to provide placements for two T-level students. If the students decide they wish to pursue a career in the industry, the division will sponsor them via an apprenticeship or a degree.

My experience has been beyond expectation. The development that I've seen in myself over the last month has been astronomical and I believe I can go even further."

Tarun Mudhar
Property Services apprentice

Our strategy in action

Recruiting young apprentices

Property Services launched an 'Apprenticeship Academy' to attract and inspire talented young people into a career within the division or the wider sector. The academy offers apprenticeships, not only in construction trades, but also in transferable skills such as commercial roles, customer services, communications and design.

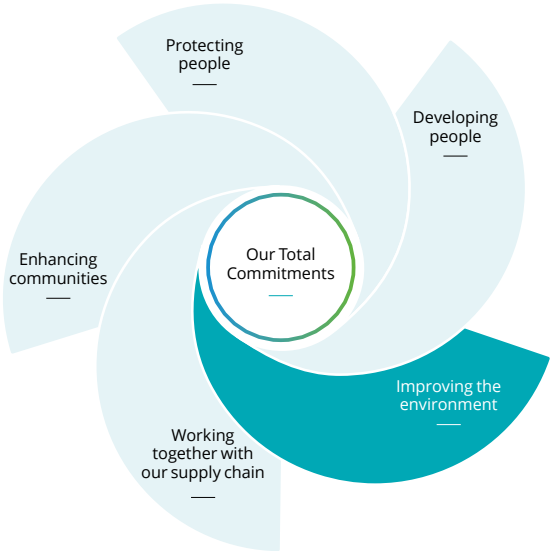
The academy runs a pre-employment week featuring careers presentations, practical sessions on teambuilding and problem solving, and employability support such as mentoring and help with CV writing. During this week, which takes place over the summer when young people are leaving college or school, candidates are shortlisted for selection.

The inaugural 2023 cohort consisted of 51 candidates, of which 25 joined the academy as apprentices. The remaining candidates continued to receive support from Property Services with further job search guidance.

Feedback from participants is being used to shape how the academy is developed going forward.

Improving the environment

We are acting to *combat climate change* by working towards net zero carbon emissions by 2045 and reducing the level of carbon in the projects and buildings we deliver.



The quick read...

- Reduced carbon emissions in our operations while assisting clients in reducing emissions from their projects and buildings
- New targets aligned to a 1.5°C scenario revalidated by the Science Based Targets initiative (SBTi)
- New KPI and targets to reduce wider Scope 3 emissions
- Targeting a biodiversity net gain on our projects and carbon offset investments

Our goal to achieve net zero carbon emissions by 2045 is more stringent than our previous goal of net zero by 2030 as it includes our wider Scope 3 emissions. These are emissions over which we do not have direct control, including carbon embodied in materials and generated through the operation of the buildings we deliver. We have introduced 2045 targets, including reducing Scopes 1, 2 and operational Scope 3 emissions by 90%, relying on just 10% of carbon offsetting, and wider Scope 3 by 60%. In addition, we have realigned all our science-based targets to a 1.5°C scenario (previously below 2°C). We are still on track to meet our 2030 targets to reduce our Scope 1, Scope 2 and operational Scope 3 emissions by 60% by 2030.

We take a holistic approach to environmental management, seeking to protect all ecosystems from degradation, preserve areas of high biodiversity value and, where possible, create new areas of biodiversity. When regenerating towns and cities, we develop mainly brownfield areas to avoid environmental disturbance. We minimise harmful air emissions from our operations and either avoid the use of hazardous substances or reduce their impacts through appropriate management and disposal. We use minimal water in our operations, help our clients use water more responsibly, ensure water discharges do not damage the environment, and install water-efficient technologies in buildings and homes.

We minimise waste where we can, both in our operations and throughout the life cycle of our buildings and developments. We send waste to landfill as a last resort, prioritising reuse, recycling or repurposing. We are working with suppliers to minimise or remove plastic packaging and aim to remove single-use plastics from projects and offices.

2023 performance and future targets

2023
45%
reduction in Scope 1 and 2 carbon emissions from 2019 baseline[1]

2025 target
30%

2030 target
60%

2045 target
90%

2023
17%
reduction in operational Scope 3 carbon emissions from 2019 baseline[2]

2025 target
30%

2030 target
60%

2045 target
90%

1 Scope 1 is direct emissions from sources owned or controlled by the Group and Scope 2 is indirect emissions generated from purchased energy. The 2019 baseline was 20,903 tonnes CO_2e.

2 All indirect emissions not included in Scope 2 that occur in limited categories of our value chain as measured by the Toitū 'carbonreduce' scheme (see page 92). The 2019 baseline was 6,339 tonnes CO_2e.

Responsible business strategy and performance continued
Improving the environment

All these efforts help decarbonise our operations, and we are taking additional steps to reduce our carbon footprint. Across the Group we have maintained our ISO 14001 certification for environmental management.

Tackling climate change

While Scope 1 and 2 emissions relate to our own business operations, such as our buildings and vehicle fleet, over 90% of our emissions are generated through our projects. Some of these emissions are operational Scope 3, such as business travel and waste management, but the majority are wider Scope 3 emissions, including embodied carbon and the operation of buildings after handover to the client.

Our slight increase in emissions in 2023 (see page 93) was a result of business travel increasing to pre-Covid levels and market challenges with procuring electric vehicles and generating electricity from renewable sources. We are also experiencing challenges associated with reducing waste, especially around plastic packaging, and recognise that this is an industry-wide problem. Despite these headwinds, we remain committed to achieving our 2030 targets and are optimistic that new decarbonisation initiatives set to roll out in 2024 will result in demonstrable improvements. Specifically, key areas of focus will include:

- reducing our business travel where possible;
- providing employees with access to a salary sacrifice scheme for purchasing electric vehicles, particularly where they use their personal cars for business purposes;
- reducing electricity consumption from non-green sources; and
- introducing a new waste management system.

The most effective way we can contribute to tackling climate change and reducing our Scope 3 emissions is by helping our clients decarbonise their projects and meet their net zero targets, which includes helping our supply chain reduce their own emissions. This results in delivering lower-carbon buildings and developments across all our sectors, including offices, schools and homes as well as critical UK infrastructure. We consider climate resilience when procuring, designing and decommissioning, and will be able to achieve more as demand from our clients rises. It is important to us that climate awareness is embedded in our culture so that we can reduce carbon in our own operations and guide our clients and supply chain in reducing theirs. See page 39 for how we work with our supply chain to reduce their emissions.

Historically our spend with suppliers providing their own carbon data has been recorded through the Supply Chain Sustainability School (SCSS) and by suppliers submitting their data through a portal that we set up for that purpose. However, we have been concerned about the rigour of the data from the portal as 65% of our annual spend is with SMEs who may not have the resources to get their data verified, and it was largely SMEs who were using the portal. Therefore, for 2023 we are reporting the data from the SCSS only. This has resulted in the figure reducing from £649m in 2022 to £224m in 2023. In 2022, our supply chain by spend providing their own carbon data via the SCSS only was £127m. We will be reviewing this KPI later in the year.

2023
New KPI
reduction in wider Scope 3 carbon emissions from 2020 baseline[3]

2030 target
42%

2045 target
60%

2023
£224m
supply chain by spend providing their own carbon data

2025 target
£500m

2023
27%
reduction in carbon emissions from the Group's vehicle fleet from 2019 baseline[4]

2025 target
30%

2030 target
60%

Horizon ambition
100%
of vehicle fleet fully electric

3 Wider Scope 3 emissions outside operational Scope 3. See Appendix on page 230 for more information. The 2020 baseline was 1,208,380 tonnes CO_2e.
4 The 2019 baseline was 12,078 tonnes CO_2e. Vehicle fleet emissions are included in Scope 1 emissions.

Responsible business strategy and performance continued

Improving the environment

Providing industry-leading climate solutions and expertise

Our carbon reduction tool, CarboniCa, assesses the potential emissions of a project early in the design stage, including carbon embodied in the materials and projected emissions throughout the building's life cycle. The tool highlights elements that will result in higher emissions and suggests lower-carbon alternatives for our teams, the client, designer, and supply chain to consider. In 2023, CarboniCa was used on 280 projects across the Group. At the year end, Construction was using CarboniCa on 77% of live projects over £10m and 59% of all projects. While we are pleased with this level of usage, we will be unable to use the tool on 100% of our projects, as some high-value projects may not have completed a CarboniCa assessment in time to be counted towards the metric. In addition, some of these projects prohibit the use of CarboniCa due to their sensitive nature.

In 2023, CarboniCa was aligned with the BREEAM rating system, thereby widening its scope of application and credibility and enabling our project teams to drive carbon reduction and complete BREEAM evaluations simultaneously. We have received a £1m innovation grant from the government to apply artificial intelligence capabilities to CarboniCa and develop predictive algorithms that would speed up whole-life carbon assessments and reduce CarboniCa maintenance and run times by 85%, saving an estimated £33.8m of employee time over a five-year period.

Our divisions have remained active in industry collaboration, contributing their time and expertise towards developing new standards and best practice for achieving low carbon/net zero.

Examples of achievements from the past year are as follows:

- **Construction** co-authored a chapter on the life cycle analysis of embodied and operational carbon in the Chartered Institute of Building's new sustainability guide for built environment professionals. The division is a founding member of the industry Carbon Reduction Code's 'Champions Network' and has maintained its 'champion' status. The Code aims to address industry challenges, elevate proven solutions in the marketplace and foster greater cross-industry collaboration on decarbonisation.
- **Fit Out** became a member of the technical committee of SKA rating, an environmental assessment methodology and benchmarking tool. The division is the only contractor on the committee, providing it with unique insight into the tool. Fit Out also continued its involvement in developing the Net Zero Carbon Buildings Standard for the office and higher education sectors, with final launch anticipated in 2024. Fit Out sits on the Finishes and Interiors Sector (FIS) Sustainability Leadership Group and is a member of the Circular Economy Forum of the UK Green Building Council (UKGBC).
- **Property Services** joined the National Homes Decarbonisation Group of contractors specialising in large-scale, energy-efficiency retrofit programmes. The group engages directly with government bodies to discuss lessons learned and funding.
- **Urban Regeneration** sponsored the development of Built by Nature's 'Commercial Timber Buildings Guidebook' on the large-scale use of timber in offices. Built by Nature is a stakeholder network dedicated to exploring the challenges and opportunities of reducing carbon in commercial buildings by accelerating the use of sustainable timber.

In addition to collaborating with industry bodies, we work with our clients and supply chain to find cost-effective ways to reduce the embodied carbon and whole-life emissions of our projects and adapt to the impacts of climate change. The following are examples of how our divisions contributed in the year to help decarbonise the UK:

- **Construction** completed the UK's first primary and nursery school to achieve net zero in both embodied and operational carbon. The project is in line with Hertfordshire County Council's sustainability strategy and is set to achieve Passivhaus Plus standard, meaning it will also improve air quality. The division is currently replacing 300 windows at Watford Town Hall with energy-efficient glazing, which will save 70 tonnes of embodied carbon.
- **Infrastructure's** Parsons Tunnel project (see page 52) is part of the South West Rail Resilience Programme to improve the railway's resilience to the impacts of heavy storms, flooding and higher tides, as well as cliff instability caused by increased rainfall. The division has built an open-sided shelter to help protect trains from falling rocks.
- **BakerHicks** is working on Scotland's first Passivhaus primary school, designed with all-electric services such as air source heat pumps. The business is also working with the Ministry of Justice to decarbonise its estates by switching to air source heat pumps and solar panels.
- **Fit Out** increased the energy efficiency of a project for a property fund management company by 65% through installations such as air source heat pumps and energy-efficient air conditioning and lighting. On a project in Berkshire, the division reused 760 sq m of metal ceiling tiles and 1,744 sq m of raised access flooring, saving over 70 tonnes of embodied carbon in total.
- **Property Services** has to date retrofitted 420 homes under the Department for Energy Security and Net Zero's Social Housing Decarbonisation Fund, improving energy ratings from E to B, reducing energy bills and saving over 1,845 tonnes of carbon emissions. The division is now progressing on a second phase of the scheme, including 500 properties in Westminster, 110 in Southend-on-Sea, 170 in Welwyn and Hatfield and 580 for Longhurst Housing Association.
- **Partnership Housing's** Beckhampton development for Nottingham City Homes has delivered affordable homes with a SAP A energy performance rating, as well as a sustainable drainage system that combats flooding by allowing all surface water to infiltrate naturally into the ground. All plots in the division's Oakfield development in Swindon, including a multistorey apartment block, have been installed with air source heat pumps. Many Partnership Housing homes are also fitted with electric vehicle charging points.
- **Urban Regeneration** is delivering the Eden building in Salford (see page 65), designed to meet the UKGBC's net-zero carbon in operation targets and using the Design for Performance standard.

Embedding climate-consciousness in our culture

Climate considerations are engrained in our daily practices and operations. Our internal carbon charge encourages our divisions to reduce their own emissions and generates a fund that we use to invest in carbon offset projects. The charge was £70 per tonne CO_2e in 2023 and is being increased to £90 in 2024. We invest heavily in our people to become experts in carbon reduction solutions and incentivise them to act responsibly. During the year, our divisions took the following initiatives to promote climate awareness:

Responsible business strategy and performance continued

Improving the environment

- **Construction** expanded its 'carbon inspiration' library for project managers, and continued its 'carbon literacy' project for upskilling employees. The division has developed over 50 carbon champions across all management levels who meet once a quarter to share best practice, knowledge and understanding. Construction introduced an annual 'Project Carbon Award' for the team that has made the greatest effort to reduce carbon and waste. The reward is £10,000 to donate to a local environmental charity or initiative.
- **Infrastructure** launched new environmental awareness training to promote understanding of the industry's most common issues. Every employee is required to take the first module, with the second and third modules tailored to specific roles and responsibilities. The division is also developing a carbon behaviours and competency matrix, accompanied by bespoke training to fill knowledge gaps. To encourage the use of electric vehicles, the division introduced a 'CarPlus' scheme which includes a corporate discount and tax savings, and provided all employees with £250 towards installing home charging points for those with company cars.
- **BakerHicks** holds monthly sessions on sustainability, and topics covered in 2023 included biodiversity net gain, Passivhaus and WELL Building standards, and sustainability in high-voltage projects. The business's annual 'Green Week' event, featuring talks and activities, focused in 2023 on sustainable transport.
- **Fit Out's** environmental team continued to host their podcast on low-carbon fit out, sharing best practice and new ideas and featuring guest speakers from the industry. Three new episodes in 2023 addressed low-carbon design, becoming sustainability champions and avoiding greenwashing, and carbon calculations. Fit Out held more than 93 environmental training sessions during the year, attended by over 400 employees.
- **Property Services** provided green skills training and workforce development for 40 employees via the Retrofit Academy, a scheme aimed at addressing future labour demands for improving the energy efficiency of UK homes to meet net zero targets. Training included an introduction to domestic retrofitting and retrofit coordination.

Exploring and testing new innovations

Our divisions collaborate with supply chain partners, educational institutions and other industry stakeholders to share best practice and develop new, innovative and cost-effective technologies. Examples in 2023 included the following:

- **Construction** took part in one of the world's largest trials to investigate a simple, low-cost method of introducing graphene to industrial-scale cement production. The trial is supported by the government's Transforming Foundation Industries programme, and the consortium conducting the trial included Breedon Cement and the University of Manchester. Initial data has already been analysed and graphene-enhanced cement has been found to offset CO_2e and demonstrate potential mechanical benefits, even at graphene loading levels of less than 0.06%. Around 2,000 tonnes of graphene-enhanced cement has been produced through the trial, marked for use in real-world demonstrations conducted by the division.
- **Infrastructure** held its first responsible business event, where 31 Supply Chain Family members showcased sustainable and innovative transport, plant, equipment and site welfare solutions to employees and clients.
- **Property Services** hosted a retrofit show home in Leigh-on-Sea to demonstrate the economic benefits of energy efficiency. It also co-sponsored a parliamentary reception, along with the National Insulation Association and the National Home Decarbonisation Group, where key industry stakeholders discussed insulation and decarbonisation.
- **Partnership Housing** has appointed three retrofit specialists: an assessor, a coordinator and a designer. Their expertise will help the business meet the requirements of the Future Homes Standard (see the case study below).

Our strategy in action

Decarbonising new homes

Heating and powering the built environment accounts for 40% of the UK's energy use. Partnership Housing is an early adopter of the Future Homes Standard (FHS) which is due to come into effect in 2025. FHS aims to increase fuel conservation and ventilation in new homes to reduce their carbon emissions by 75%–80% compared to current standards.

In preparation for the new regulation, the division built two trial homes at its Cornish Park, Spennymoor site to test alternative electric heating systems for reliability, energy efficiency and affordability. The trials were conducted in partnership with an external consultancy and Teesside University and included air source heat pumps, increased flooring and roof insulation, triple-glazed windows, improved air tightness, wastewater heat recovery and infrared heating and solar panels. The findings will help inform new cost-effective housing specifications and the Group's wider decarbonisation strategy.

The division continues to explore innovative solutions and has committed to additional trials and collaboration with the University of Salford in the North West, while talks are ongoing with an additional four universities.

Responsible business strategy and performance continued
Improving the environment

Our net zero strategy

Our transition plan is being progressed and will be published later in 2024. It aligns with the guidance outlined by the Transition Plan Taskforce finalised by HM Treasury in October 2023. Our strategy continues to follow the core elements listed below. In 2023, we experienced a slight uptick in our Scope 1, Scope 2 and operational Scope 3 emissions, increasing overall emissions by 1.6%, notwithstanding a 14% increase in revenue. We remain confident that we will be able to meet our 2030 targets. Our carbon intensity (CO_2e tonnes per £m revenue) has decreased to 4.0 from 4.5, illustrating how the Group is growing while simultaneously curbing emissions.

Remove and replace

Where possible we aim to eliminate carbon from our operations and supply chain entirely by integrating electric vehicles and machinery and designing net zero buildings to replace carbon-intensive activities. We continue to increase our procurement of electricity through renewable resources (70% renewable in 2023 compared to 65% in 2022) and our divisions provide industry-leading solutions to clients seeking low-carbon alternatives. See more on pages 30 to 36 and page 39.

Reduce

If total removal is not possible, we then aim to minimise carbon consumption through efficiency schemes and encourage stakeholders to reduce their own emissions through supplier engagement (see page 39 for how we enable suppliers to be carbon conscious). We also invest in training our employees to develop the necessary expertise and resources to be leaders in low-carbon construction solutions.

Offset

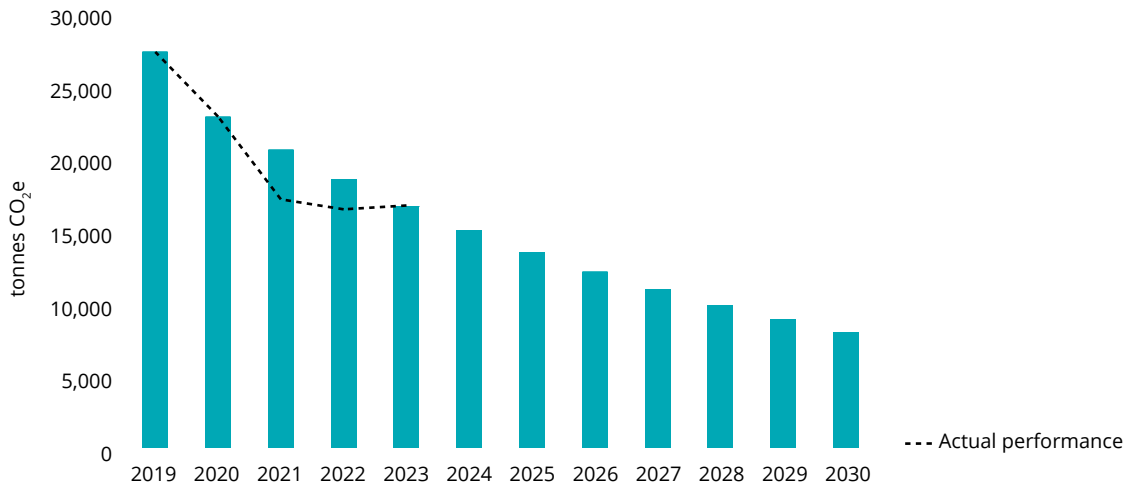
Any emissions that cannot be removed, replaced or reduced will be offset through high-quality projects located in the UK that simultaneously generate social and biodiversity benefits for local communities. For information on our Lakenheath Fen, Blenheim and Great North Bog projects, see page 35.

Report

Demonstrating our decarbonisation progress and milestones depends on accurate and transparent reporting, and we therefore obtain independent verification of our Scope 1, Scope 2 and operational Scope 3 emissions (see page 92). We are actively working to improve our wider Scope 3 accounting capabilities (see page 39).

Net zero pathway – expected trajectory

Scope 1, Scope 2 and operational Scope 3 emissions



Responsible business strategy and performance continued

Improving the environment

Reducing our own carbon footprint

During the year, the divisions undertook a variety of activities to reduce their operational emissions:

- **Construction** achieved 11 diesel-free sites, with 50% of fuel across all sites renewable biodiesel. The division introduced a project sustainability charter, setting ambitious sustainability targets agreed with the client. The charter is mandatory on all new projects, and project teams are supported by the division's environmental champions, simple 'how to' guides for reducing carbon and waste, and an online resource where they can review progress and log any relevant actions. As at the year end, the charter had been established for use on 60 projects. Construction also set up a data collection system to report its monthly net zero performance. The data, shared across all regions, highlights challenges that need addressing as well as where the division can have the biggest positive impacts.
- **Infrastructure** achieved PAS 2080 certification for Carbon Management in Infrastructure. The division invested in 10 battery-run mobile welfare units, and its plant team produced the first in a series of best practice documents on sustainable and innovative transport, plant, equipment and site welfare solutions and standards.
- **BakerHicks** completed the installation of 16 electric vehicle chargers for use at its Motherwell office, having conducted extensive supplier research and designed and managed the installation. The business is looking to install similar chargers at its offices in Warwick and Salford Quays.
- **Fit Out** is working with its supply chain on a series of guides for designers to assist them in specifying lower-carbon products and materials, such as flooring, ceilings and partitions.
- **Property Services** committed in 2021 to switching all small and medium vans to electric by 2023, excluding any contracts where there is an unusually high daily mileage. We originally acknowledged the technological limitations associated with electric vans, which may prevent us achieving this commitment, and since then the market for small and medium electric vans, as well as the electric charging infrastructure required to support their usage, is still not at the level of development to allow the division to fully electrify its fleet. Property Services has therefore been exploring more commercially viable alternatives such as more energy-efficient vans, with fully electric vans used where they are viable.
- **Partnership Housing** made the decision to become HVO exclusive for all operated plant and machinery where supply allows for it. HVO is made largely of vegetable oil and waste animal fat and reduces emissions by up to 90%. The division's use of HVO increased from 75% in 2022 to 95% in 2023.

Investing in high-quality, UK-based carbon offset projects

While our focus is on decarbonising our projects, carbon offsets have a role to play in tackling residual emissions. We invest only in high-quality offsets located in the UK that will enhance biodiversity and contribute to healthier living for local communities. The Group has formed a partnership with the Royal Society for the Protection of Birds (RSPB) to help them restore peatland from existing farmland at Lakenheath Fen on the Norfolk/Suffolk border. Our investment has enabled the RSPB to buy ploughed fields the size of 81 football pitches and convert them into a peat-rich, biodiverse wetland.

In addition to Lakenheath, we have invested in the Great North Bog, a peatland restoration initiative in northern England. The project covers 7,000 sq km of upland peat with the capability of storing up to 400m tonnes CO_2e.

The following progress was made on our carbon offset projects in 2023:

- **Lakenheath Fen:** planning permission was secured in September and key water controls installed in November. As well as reducing carbon emissions, the project is creating a haven for bitterns and other wildlife, while ensuring no disruption to biodiversity. It is our intention to explore the generation of both nature and carbon credits through this project.
- **Great North Bog:** biodiversity, carbon and nature restoration assessments were completed on seven sites and rewetting began in the autumn. Restoring peatlands is critical as 5% of global carbon is emitted through the degradation of this ecosystem. The project will also help prevent flooding in the area by controlling the flow of water.
- **Blenheim:** we finished planting the last two woodlands at the Blenheim Estate in Oxfordshire, bringing the total to nine new woodlands with 270,000 trees and a biodiversity net gain of 78%. We also completed 15km of permissive pathways for the public to enjoy. In October, the project passed its annual carbon audit by Grown in Britain, which validates our credits with the Woodland Carbon Code, the Forestry Commission and the Department for Environment, Food & Rural Affairs, and will enable us to start issuing credits to offset annual emissions figures from 2030 onwards.

Promoting biodiversity

Our decarbonisation strategy includes targeting a biodiversity net gain (BNG) on our projects and carbon offsetting investments, whereby we leave an area with its biodiversity in a better state than before, or 'nature positive'. It typically involves creating new habitats or enhancing existing ones and begins with a survey of the existing plot to establish a baseline. Early ecology surveys at the Blenheim Estate have shown a more than 75% increase in BNG, as the flower-rich grass planted to support the tree saplings has provided a habitat for birds and insects, including pollinators.

Our divisions take practical steps to minimise the impacts of their work on the surrounding landscape and ensure compliance with legislation relating to protected species. Many divisions are achieving BNG on their projects, for example by enhancing green spaces, regenerating brownfield sites, and supporting wildlife through community projects. Over 30 projects are currently achieving a BNG of at least 10%. Biodiversity initiatives have included the following:

- **Construction** became a member of Woodknowledge Wales, a not-for-profit that champions the development of forest-based industries, and co-sponsored the organisation's WoodBUILD 2023 conference. The division launched new BNG training and hosted two BNG upskilling sessions with engineering and environmental consultancy RSK. Construction uses a biodiversity checklist on its projects and in 2023 created a new 'biodiversity register' to track the BNG potential of all projects in the pipeline.
- **Infrastructure** achieved an 18% BNG on its project in the Peak District for National Grid, through careful environmental management and the creation of new habitat for wildlife such as the endangered willow tit.

Responsible business strategy and performance continued
Improving the environment

- **Partnership Housing** continued to enhance green spaces on housing developments by planting native trees and hedgerows, installing hedgehog highways, and using Swift Bricks designed by conservation experts to provide a safe space for swifts and other small birds to nest. Of the division's projects, 70% are built by restoring brownfield sites; for example, the division is creating an eco park at Royal Victoria Court in Newport, the former site of a large steelworks. Land is being converted to wetland and several species of native broadleaved deciduous trees planted to provide a breeding ground for wildlife.
- **Urban Regeneration's** Eden building in Salford features one of Europe's largest living walls (see page 65) and is expected to increase biodiversity in the area by 2,000%.

In 2023, we achieved a CDP B- score for disclosure on managing forest-related risks and opportunities, down slightly from B the prior year. We retained our accreditations to ISO 20400:2017 Responsible Procurement and BES 6001 Responsible Sourcing of Construction Products. We ensure all timber products purchased for our projects are certified as legally and sustainably sourced, as defined by the government's Central Point of Expertise on Timber. We collect quarterly data from our supply chain to ensure strict compliance with our Group sustainable sourcing timber policy.

Waste management and a circular economy

In 2023, our total waste increased by 30% to 485,722 tonnes (2022: 373,071 tonnes), owing to the type and scope of works undertaken. Of this, 94% was diverted from landfill. Our total waste intensity (total tonnes of waste produced per £m of revenue) increased by 14% to 118.0 tonnes (2022: 103.3 tonnes). Our construction waste increased by 5% to 96,141 tonnes (2022: 91,195 tonnes), with 98% diverted from landfill.

Our approach to waste is to reduce, reuse and recycle. We work with our waste service providers to keep finding better ways of managing waste or reducing it at source, take part in suppliers' take-back schemes, and engage with our supply chain and other stakeholders on responsible ways to reuse items and materials that are no longer wanted. Our hazardous waste management includes eliminating harmful chemicals as far as possible, for example encouraging the use of water-based paint. All our BREEAM-certified projects require a reduction in the use of materials with volatile organic compounds and formaldehyde. We are improving our data collection on waste so that we can take a more strategic approach in the way we reduce and recycle.

In 2023, we recycled 3,176 cubic yards of wood, 22% of which was high grade, which maximised its reuse. Construction, Infrastructure and Partnership Housing further strengthened their relationships with Pallet Loop, a circular economy pallet reuse scheme. Pallet Loop collected over 19,000 pallets from our sites in 2023 (compared to 7,699 in 2022 while we were rolling out the initiative), saving 1,009 kg CO_2e and £89,000 in waste disposal costs. Our divisions undertook the following:

- **Construction** continued to collaborate with industry bodies on tackling waste: it became a member of the Chartered Institution of Wastes Management's Construction and Demolition Waste Forum; and its 'ZAP' project with the Alliance for Sustainable Building Products saw the launch in 2023 of a new industry toolkit for achieving zero avoidable packaging. In addition, Construction continued to work with its partners on the RECONMATIC research and development programme to find automated solutions for managing construction and demolition waste sustainably. RECONMATIC's second annual assembly was held at the University of Manchester and was attended by delegates from Europe and China. The Construction team presented an update on their progress in developing a materials database that can be used to predict and design out waste.
- **Infrastructure** has rolled out its new waste desk (piloted in 2022). Through the new system, the division has gained insight into tonnage waste breakdowns, landfill diversion and raise-in-time notifications, and has been able to monitor how efficiently waste containers and skips are being used on site. Most importantly, the waste desk includes a monetisation tracker, applying a monetary and carbon cost to generated waste. By applying a cost per tonne of waste, teams are incentivised to further reduce waste, increase recycling, and learn how key materials can be used more responsibly to drive down overall project spending.
- **Fit Out** worked with suppliers to find ways of reusing furniture removed from sites, furniture being the second largest source of embodied carbon on its projects. On a fit out in Manchester, the project team presented over 1,500 items of office furniture for reuse.
- **Property Services** has continued to work with Reconomy, a waste services provider that focuses on sustainable waste management. The division has introduced Reconomy digital solutions such as a portal for senior managers that records project waste data, and a 'tipping' app that locates nearby waste transfer stations and recycling centres.
- **Partnership Housing** is using building information modelling technology to calculate more accurately the quantity of materials needed and thereby design out waste. The increasing use of items assembled off site, such as floor planks and smart roofs, will reduce waste further.

Our strategy in action

Recycling wood, cutting carbon

We have continued our partnership with Community Wood Recycling (CWR), a nationwide network of social enterprises that collect wood waste and recycle it through reclaimed timber stores. Since 2010, we have rescued 4,643 tonnes of wood from the waste stream (508 tonnes in 2023), equivalent to 2,300 tonnes CO_2e (250 tonnes in 2023). Reclaiming timber is up to 10 times more efficient than harvesting, milling and transporting virgin wood. CWR also calculated that, in 2023, we helped them create 11.4 jobs and 5.9 training opportunities for disadvantaged people.

Working together with our supply chain

We have built *longstanding* relationships with our supply chain partners.

Our relationships with our supply chain partners are essential in the successful delivery of our projects and overcoming challenges in the market. Our strategy has always been to maintain strong relationships based on long-term commitment.

Our Morgan Sindall Supply Chain Family of suppliers and manufacturers has now grown to 406 members who benefit from training, on-site practical advice, access to contract information and upcoming projects, and a dedicated relationship management team. Seventy-five percent of our Group spend by value in 2023 was with the Supply Chain Family. In addition, we have continued to partner with the Supply Chain Sustainability School (SCSS). As at the end of 2023, 2,833 of our suppliers were registered with the SCSS, up from 2,778 in 2022.

While inflationary pressures have subsided and material availability is improving, the ongoing stability of the supply chain has become more uncertain with liquidity issues increasingly common and requiring more strategic and effective management. In 2023 we implemented a new supply chain onboarding platform that allows us to identify, vet, and engage with a pool of over 50,000 prequalified suppliers in accordance with a range of industry standards, regulation, and risk criteria. The platform also includes access to a 'risk radar' which will notify us of potential financial, social or economic incidents associated with subcontractors and suppliers. This information will inform our conversations with our supply chain and help us manage the risk more effectively. See page 47 for detail on our performance in paying our suppliers within 60 days.

The quick read...

- Achieved success in diversifying our supply chain and providing opportunities for SMEs
- Awarded Gold status by the Supply Chain Sustainability School for our active involvement in training and sharing best practice
- Collaborated with our supply chain to reduce Scope 3 carbon emissions and increase safety on sites

2023 performance and future targets

2023
68.8%
of invoices paid within 30 days

2025 target
70%

2030 target
80%

Horizon ambition
95%

Responsible business strategy and performance continued

Working together with our supply chain

In 2023 we became an official supporter of the Code for Construction Product Information (CCPI), which sets out 11 criteria for minimum requirements, including accuracy, clarity of claims and supplier competency. The CCPI was initiated by the Construction Products Association in response to the government's review of building regulations and fire safety following the Grenfell Tower tragedy. As an early adopter and supporter, we have committed to encouraging our suppliers and manufacturers to ensure their products achieve CCPI verification by no later than December 2026; to discuss product safety and quality at Board level; and to report twice a year to the CCPI on our progress.

We remain committed to diversifying our supply chain and engage consistently and frequently to understand their businesses while providing them with key insights into our business. Our divisions continuously build and maintain relationships with their supply chain in a variety of ways (see page 18 and pages 38 to 40). We also look for new and innovative ways of engaging. For example, in 2023 Construction rolled out a series of 'Collaboration Days' across the UK for employees and subcontractors. Cladding, walling and roofing manufacturers presented on how these materials interface in a project, where potential errors often occur, and how improper fitting could compromise quality. Over the course of several days, employees and contractors toured factories, received training on product ranges, and tested their new knowledge by inspecting a purposely ill-built structure for defects and improperly installed materials. Around 180 construction employees and 30 subcontractors took part, and positive feedback has led the division to plan further workshops in 2024.

Given the growing complexity and scale of our supply chain, our divisions have continued to digitise their supply chain data collection systems to assist with trend analysis, reducing costs, developing more targeted engagement, and ensuring prompt payment. For example, Property Services and Fit Out have used Power BI software to identify frequently procured items, enabling them to work with the manufacturers and distributors to ensure these products are always available when needed and speed up the procurement process.

We have continued to work with our supply chain partners to achieve our responsible business ambitions and objectives and try to procure locally whenever we can to reduce our environmental impacts while creating opportunities for SMEs. In 2023, 65% of the Group's spend was with 10,190 SMEs (2022: 69% and 9,811 respectively).

We endeavour to procure from suppliers and subcontractors who champion diversity. For the second consecutive year, we took part in the SCSS's employee diversity benchmarking survey to see how our supply chain performed against other suppliers and how they compared with Office for National Statistics data. In total, over 195,000 employees from 359 companies within our supply chain took part.

The results indicated that we have increased diversity representation within our supply chain. Currently, 22.8% of our supplier employees are women (2022: 21.8%), 8.3% are aged 25 or younger (2022: 7.9%), 1.2% are members of the LGBTQ+ community, 2.9% identify as having a disability and 10.2% are from an ethnic minority group (2022: 7.0%). Following these results, we are continuing to engage with the SCSS's Fairness, Inclusion and Respect programme and our divisions are developing new diversity initiatives. For example, Fit Out is planning to use the findings to shape its 2024 social value strategy and work with its supply chain to improve its 'JEDI' (justice, equity, diversity, and inclusion), for example through additional SCSS training. The division has also begun capturing data on the diversity of its preferred suppliers and plans to set long-term targets aimed at increasing its spending with those suppliers exhibiting greater diversity.

We work with our suppliers to ensure they meet our standards, particularly with regard to safety and carbon emissions. We partner with the SCSS to provide training and progress industry standards and practices. Over the course of 2023, 10,500 e-learning modules were completed by our supply chain members, and 1,910 suppliers attended training workshops. These educational initiatives are valued at over £1.3m. We were awarded Gold status (previously Silver) by the School, a reflection of our increasing involvement and active knowledge sharing. Examples of SCSS engagement activities in 2023 include the following:

- **Infrastructure** began tracking the status of preferred supply chain contractors registered with the SCSS. Its rail business has set a target that all its strategic and preferred suppliers will join the SCSS, with 50% achieving minimum Bronze status by the end of the first quarter of 2024.
- **Fit Out** is working with the SCSS on an assessment of why and how its preferred suppliers are engaging with the School and its resources. The findings will help the division ensure that its key suppliers are making maximum use of the SCSS's resources.
- **Partnership Housing's** head of procurement and sustainability became chair of the SCSS's Homes Leadership Group and, in collaboration with industry peers, led a conference on 'A Greener Supply Chain – The Homebuilders View', attended by over 400 suppliers. The purpose of the event was to demonstrate the importance of carbon reduction objectives to UK housebuilders, and to encourage the supply chain to set similar objectives. This model of industry peers collaborating on a joint message for the supply chain is likely to be adopted across other SCSS working groups.

Our strategy in action

Tackling wider Scope 3 emission reporting

Wider Scope 3 emissions are complicated to measure as they are generated indirectly through our value chain. Fit Out challenged itself with producing rigorous and transparent reports on its Scope 3 emissions, using 2022 data. The reports[1] concluded that total Scope 3 (which includes both operational and wider emissions) accounts for over 99% of the division's carbon emissions. This highlights the importance of engaging and collaborating with suppliers and manufacturers to address the issue.

The reports set out the methodology used by Fit Out's environmental team to gather the data, and the challenges they faced. For example, due to a general lack of environmental product declarations, they had to use an open-source database to convert spending figures into carbon emissions. They also engaged with suppliers on data such as vehicle types and miles travelled. The processes used to produce the reports reflect best available practice and the figures were accurate enough to be externally verified.

Going forward, Fit Out will engage with manufacturers to encourage them to reduce embodied carbon in their products, and will continue to work with its supply chain to reuse items wherever possible.

1 Fit Out's Scope 3 reports can be found here: Overbury / Morgan Lovell.

Working together on Scope 3 carbon emissions

As shown on pages 30 and 31, we will require substantial intervention by our supply chain to achieve our Scope 3 science-based target reductions. This will mean collaborating with our suppliers to improve data collection processes, make low-carbon materials more economical and readily available, design innovative solutions, and form links between suppliers to support a circular economy by reusing existing materials and reducing waste.

In 2023 we entered into a partnership with major contractors and suppliers to assist construction technology provider Causeway Technologies in its new project to develop automated Scope 3 emission reporting, whereby invoices are used to calculate embodied carbon in real time. The collaboration is testing the software through 25,000 invoices provided by suppliers as well as reaching out directly to suppliers to encourage their participation.

Our divisions are making strides in all these areas as the examples below illustrate:

- **Construction** continued its 10-tonne challenge initiative, where project teams work with their supply chain to find ways of reducing carbon on their projects by at least 10 tonnes. Since 2021, the scheme has resulted in over 24,000 tonnes in avoided emissions, surpassing the target of 20,000 tonnes that was set for 2023. The initiative has generated a wealth of information on ways to reduce carbon, including 154 case studies, which Construction has distilled into points of focus for discussing carbon reduction with suppliers on future projects. The division hosted more than 20 events with suppliers during the year to discuss decarbonisation.
- **Infrastructure**, as part of its decarbonisation strategy, has established a process for collecting environmental product declarations (EPDs) which are verified by the BRE (Building Research Establishment) and provide quantified data on carbon emissions associated with different materials and services. The EPDs are fed into our CarboniCa carbon reduction tool to help refine the assumptions made. The division has also adopted a new electronic tendering platform which provides suppliers with an easier tendering process and enables the division to ask specific questions about candidates' carbon and sustainability performance credentials.
- **Fit Out** hosted several workshops with more than 200 subcontractors across 50 companies to discuss ways of reducing carbon and reusing items removed during refurbishments. The division also underwent a significant assessment to improve its Scope 3 accounting (see case study left) and its 'carbon materials tracker' which it developed in 2022 to track Scope 3 emissions from materials on its projects. Fit Out has rolled out a discount scheme for suppliers to obtain EPDs on their products to encourage more transparency and disclosure. Finally, Fit Out has begun to develop a Sustainable Credentials Record, a database of the sustainability credentials of materials as set against LEED (Leadership in Energy and Environmental Design), BREEAM, WELL, SKA and other carbon standards. This will help the division's design teams identify and engage with suppliers whose products match the standards' criteria.

Responsible business strategy and performance continued
Working together with our supply chain

- **Partnership Housing** conducted 50 sustainability audits of its supply chain to rank them against each other and understand where potential weaknesses are. Suppliers were asked if they measure their carbon emissions, have any carbon reduction targets, or use carbon saving practices. Following the audits, the division contacted each supplier to explain the sustainability activities expected from them and discuss how they could improve. Suppliers were offered a re-audit if they adopted new sustainable actions, certification or internal policies, and several took up the opportunity.

Working together to increase safety

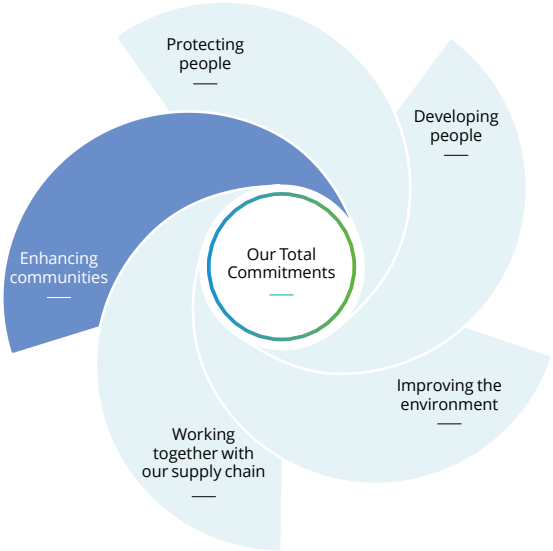
As part of the selection process, our divisions screen suppliers and subcontractors using prequalification questionnaires which include questions on health and safety practices and performance. The questions asked and the systems of evaluation used are periodically reviewed and updated, and in 2023 both Property Services and Infrastructure introduced new evaluation software. Based on responses and supporting evidence, our divisions select suppliers and subcontractors whose high safety standards align with our own. However, responses can also help identify particular areas where suppliers can improve further with the appropriate training. By providing this training, we can help promote safety in our own business and across the wider industry.

Our divisions have taken the following actions to help subcontractors improve their safety performance:

- **Construction** expanded MSite, an online platform for controlling access to sites, to include a portal for suppliers to pre-register and undertake an online induction prior to arriving on site for the first time. The division has developed visual aids for all site operatives in order to clearly communicate its minimum site standards; the visual standards are reviewed and updated to reflect any recent incidents occurring within Construction or the wider industry.
- **Fit Out** met with the directors and senior managers of supply chain businesses that had been identified as needing to improve their health and safety performance. Where necessary, formal action plans were put in place, which are monitored and reviewed at agreed intervals. The division uses software tools to generate an individual report for each company which analyses its performance over set periods of time and is used as a basis for further discussion.
- **Property Services** trialled an adapted version of MSite which provides better visibility of subcontractor employees' competencies. The division also revised its prequalification questionnaire to include new questions on health and safety competencies, modern slavery mitigation and procurement practices. The questionnaire will help attract top-performing suppliers and ensure that supplier practices are evolving to meet the division's business practices and expectations.

Enhancing communities

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



We are active members of the communities in which we work. Our decentralised structure, more than 60 office locations, and nationwide supply chain network make us well placed to help identify and address local needs. During the tendering, planning, specification and design stages of our projects, we work with our clients, partners, supply chain and others to find ways of generating social value – positive social, environmental and economic impacts – for the local community.

Our regeneration of towns and cities provides new housing, retail and leisure facilities, and integrated green communal spaces. On our projects, we run programmes that support social mobility: we provide training and employment opportunities to local residents, particularly those who normally face barriers to employment, partner with schools and colleges to encourage young people from all backgrounds into careers in construction, and work with local charities and organisations on community initiatives.

Our divisions are expanding and training their social value teams to identify initiatives that are relevant and meaningful to local people and to ensure that outcomes are recorded, measured and reported. Fit Out and Urban Regeneration have both created new senior leadership positions to manage social value generation.

Our Group social value panel, made up of representatives from across the divisions, meets regularly to share best practice and address challenges. In 2023, the panel reviewed the Group's social value KPIs and the different monetisation methodologies used by clients to measure social value generated on projects. As a result of these discussions, the decision was made to re-evaluate further development of our Social Value Bank in view of the fact that the majority of our clients are tending to use alternative tools. See page 44 for information on how we measure social value.

The quick read...

- Reviewed the tools we use to measure social value on our projects
- Built energy-efficient homes to reduce energy costs
- Provided training and employment for disadvantaged groups
- Participated in local community and charity initiatives

2023 performance and future targets

2023
73p
of social value per £1 spent on 80 projects

2025 target
85p

2030 target
90p

Horizon ambition
£1.01

Responsible business strategy and performance continued
Enhancing communities

During the year, we appointed a 'director of just transition' to ensure that our decarbonisation plans minimise any potential disadvantages to our supply chain and local communities. For example, an increased use of renewable products could result in a demand for new skills that local people may not have, some suppliers' products or services no longer being needed, or significantly reduced employment if a community is reliant on a high-carbon industry that can no longer operate. Therefore, to promote a just transition, we aim to ensure that our projects create social value by, for example, providing local people with employment, reskilling or retraining (including training in green skills), and by supporting our supply chain in ensuring they have the right skills and resources to deliver low-carbon solutions on our projects and working with them to develop low-carbon tools and materials.

Affordable, energy-efficient housing

The link between social and environmental value is further illustrated by our new home developments. The cost of living in the UK has continued to place a strain on home affordability and we have worked with local councils and government agencies to deliver high-quality, affordable new homes. The new homes are energy efficient, which while lowering carbon emissions also reduces energy bills.

- **Partnership Housing** built 3,958 affordable homes in 2023. The division works with housing association partners to aim for 40%–50% affordable housing on its developments, compared to the regulatory requirement of 20%–30%. These homes are also Environment Protection Agency A/B rated and qualify for green mortgages, where lenders give cashback on energy-efficient homes.
- **Urban Regeneration** is delivering 96 affordable eco-friendly homes at its Greenhaus development in Salford.

Community employment

We work with our clients and supply chain partners to provide training, work placements and long-term employment opportunities for local residents, including those from disadvantaged or underrepresented groups. We try to recruit locally on our projects so that the skills and work experience generated from our projects will be transferable and build a legacy in local communities long after our projects are completed.

- **Construction** is collaborating with FutureIN, a locally focused programme providing routes to apprenticeship pathways in the construction sector for young people who may be homeless, at risk of homelessness, or facing other challenges. The division provided over 10,000 weeks of apprenticeship training in 2023 across the UK, either directly or through its supply chain. Construction has also partnered with the Greensville Trust, an Islam-based charity in the North West of England, to develop an inclusive recruitment process through which five six-month placements were provided to local candidates. The Trust's equality, diversity and inclusion consultant worked with the division to help make its mentoring and career guidance practices more inclusive.
- **Infrastructure's** programme 'Creating Careers in Cumbria' completed its 12th cohort in 2023, providing 11 unemployed residents with work experience and employability skills training. The programme was expanded to target specific groups such as lone parents. The division held its second 'Festival for Work' during the year, showcasing over 500 employment opportunities from suppliers across West Cumbria to more than 1,200 attendees.

Our strategy in action

Wide-ranging social value created on one project

Throughout the lifespan of our projects, our teams deliver social value through a wide range of initiatives in partnership with our clients. Over the course of a 44-week renovation for engineering consultancy Arup in Birmingham, Fit Out:

- provided work experience placements and a STEM workshop for local college students;
- contracted cleaning services from a local social enterprise that creates employment for people with hearing impairments, and conducted a deaf awareness and basic sign language workshop to help Fit Out and subcontractor employees communicate with them;
- held an Easter Egg drive in aid of Birmingham's Acorns Children's Hospice and the First Class Foundation charity which supports young people in the West Midlands; and
- repurposed one tonne of furniture.

Responsible business strategy and performance continued
Enhancing communities

- **Fit Out's** social value coordinators completed 133 school engagements, demonstrating to pupils the range of potential career paths in the industry. The division also continued its partnership with the Leonard Cheshire 'Change 100' internship programme which helps disabled young people find meaningful employment. Fit Out has provided eight internships since 2021 and during the year provided the third intern from the programme with permanent employment.
- **Property Services** continued its BasWorx employment programme for Basildon residents, with nine participants gaining Level 1 qualifications and interviews with local companies, and the transferable skills of administration and customer services being added to the training offered. The division ran a five-day 'work-to-learn' programme for nine Waltham Forest residents, two of whom were offered apprenticeships as quantity surveyors; and held weekly drop-in employability sessions with mental health charity MIND for people who suffer with mental health issues.
- **Property Services'** social value team continued its partnership with the charities Smart Works and Phoenix Domestic Abuse Services, to support women facing barriers to employment. The women who take part are provided with employability coaching, mentoring, and support with dressing for interviews to help build their confidence. The social value team develops a personalised action plan for each participant, with sessions held in person, over the phone or on Teams, depending on the individual's needs and preferences. One participant in 2023 secured a position with the division.
- **Urban Regeneration**, on its Manor Road project in Canning Town, London, has to date created 352 job vacancies for local people who were previously unemployed.

Education – working with schools and colleges

Several divisions have formed long-term relationships with education providers to provide training, work experience and information on careers in construction. This initiative helps young people in their search for a career while also aiming to increase diversity and address skills shortages in the industry.

- **Construction** continued to deliver carbon literacy (awareness) training to schools, colleges and community groups across the country, reaching a total of more than 800 students in 2023; set up a summer school carbon workshop with the University of Salford which was attended by 21 first-year students, four of whom were selected for work experience with the division; and held a series of six design workshops at the School of Architecture, Design and the Built Environment at Nottingham Trent University which focused on prioritising sustainability in design. Construction was awarded Innovate UK funding to develop the curriculum.
- **Infrastructure** is supporting 'teacher encounters', an initiative by the Careers & Enterprise Company, a national body for careers education in England, that gives teachers the opportunity to engage directly with employers and learn about career pathways relevant to their subjects. Infrastructure hosted 44 STEM (science, technology, engineering and mathematics) teachers as part of a local programme coordinated by the North East Local Enterprise Partnership and Newcastle University.
- **BakerHicks** completed more than 30 school and career events in 2023 for students aged 11 and over. The division also entered into four new formalised partnerships with schools across the UK and established a team of STEM ambassadors, employees who volunteer to visit schools to educate students about STEM careers and encourage them to pursue further study.
- **Fit Out** ran a competition called 'The Engineering Project Challenge'. Students from two grammar schools were charged with applying their science and technology education to find innovative ways to create a safer work environment, for example through noise-cancelling technology or when working at height. The competition was designed to help the students apply what they had learned in the classroom to a real-world scenario.
- **Property Services** ran a six-week programme for Year 11 and sixth form pupils in Bradford which included careers advice, one-to-one career guidance, work experience and information about apprenticeships. The division also facilitated mock interviews for 19 special educational needs students from a secondary school in St Albans in Hertfordshire.
- **Partnership Housing**, on its Pendleton development in Salford, partnered with Salford City College to offer students careers advice, work placements and site visits. The division also worked with local initiatives Build Salford and Skills Construction Centre to provide apprenticeships and work placements, either directly or through its supply chain, to young people in the community. Partnership Housing has become a Corporate Partner of the Early Careers Foundation and is taking part in their mentoring programme, with 12 employees volunteering to complete the training and register as professional career mentors.

Responsible business strategy and performance continued

Enhancing communities

Community projects and charities

We enjoy supporting local and national charities that are important to our employees, clients and communities. In addition to providing financial support, we engage our employees and supply chain in volunteering their time, skillsets, knowledge and other resources. Some examples of our many activities in 2023 include the following:

- **Construction** developed a social value partnership with EMR Metal Recycling, who collect and sell reclaimed materials on projects and donate the proceeds to local causes. For example, the proceeds from reclaimed metals from sites at Hammerstone Road Depot in Manchester and Newhouse Academy in Rochdale were donated to a local conservation and regeneration initiative, City of Trees, to plant trees across the Greater Manchester area.
- **Infrastructure** raised over £1,600 for the Lighthouse Club, a charity that provides financial and emotional support to construction workers, and over £1,500 for the Barrow Hospital special care baby unit in Cumbria.
- **Fit Out** partnered with Global Generation, an educational charity focused on developing green spaces across London to nurture community and nature. Materials stripped from a current project were used to create a community classroom at the charity's 'Paper Garden' in Canada Water. The classroom is the largest circular economy building in London. The division also completed a pro bono fit out for the Renaissance Foundation, a charity serving young carers aged 12–18. The Foundation did not have adequate space to run its programmes, and Fit Out worked with 14 subcontractors to provide offices, a new kitchen, dining space, a music room and an 'imagination room'. In total, £64,000 in materials and 2,636 hours of skilled volunteer time were contributed.
- **Property Services** raised over £1,600 for the West London Mission which will go towards emergency accommodation for homeless people and counselling sessions for rehabilitation.
- **Partnership Housing** employees spent a day volunteering at Church Farm in Stevenage for the charity Rural Care, which runs rural education programmes for people with learning disabilities and mental health issues. The division also held four events for Herts Young Homelessness, raising over £28,000. The charity works to prevent homelessness by providing education and support to at-risk young people.
- **Urban Regeneration** donated £10,000 to youth homelessness charity St Basils, which offers grants to purchase essential supplies, clothing, furnishings, travel, entertainment and means of staying connected with others, and to pay towards energy bills. The division also partnered with St Helens Rugby Football Club's Saints Community Development Foundation for the next two years to support inclusive cheerleading opportunities for people with disabilities.

Measuring our social value

We have been using three platforms to measure the social value of our projects: our Social Value Bank and two other tools requested by our clients: the Social Value Portal and Housing Associations' Charitable Trust (HACT).

- **Social Value Bank.** We developed the Social Value Bank to measure and track in monetary terms the social, economic and environmental value we add to local communities through our activities. The bank aligns with the valuation methodology used in HM Treasury's Green Book and Organisation for Economic Co-operation and Development guidelines. It measures the long-term social impacts of completed developments, for example the benefits of having a new school or hospital in the area.
- **Social Value Portal.** This tool is based on the national Themes, Outcomes and Measures framework, which is compatible with all major ESG frameworks, endorsed by the Local Government Association, and used by many public sector organisations across the UK.
- **HACT** is an external verifier that uses the 'Wellbeing Valuation Approach'. This tool is used by Property Services.

Measuring across all three platforms has allowed us to comply with the needs of our clients and gain an overall view of the impacts we are having through our projects.

In 2023, we used the Social Value Bank on 80 projects and it calculated that we contributed 73p of social value for every £1 spent. Examples of social value on these projects included:

- 651 apprenticeships and training opportunities for young people (2022: 1,002);
- 440 job opportunities for unemployed people (2022: 612);
- 650 job opportunities for local people (2022: 553);
- 8,456 hours supporting schools (2022: 4,779); and
- 5,757 hours community volunteering (2022: 9,253).

Through the Social Value Portal, it was calculated that we contributed £33.3m of social value. Outcomes included:

- 468 local people employed;
- £8.9m of local spend;
- 1,840 weeks of apprenticeship training; and
- 1,683 career support sessions.

These figures relate to Property Services, which in 2023 had its data validated by the Social Value Portal. Going forward, other divisions will use the Social Value Portal to validate and report their data.

The HACT valuation confirmed that between April 2022 and March 2023 (HACT's reporting cycle), Property Services achieved £7.4m of social value (2022: £3.5m), with every £1 spent generating £25 (2022: £30) in social value across its contracts.

Financial review

Our results were another record for the Group

The quick read...

- Record revenue and adjusted* operating profit despite inflation and market headwinds
- Adjusted* profit before tax up 6%
- Strong balance sheet supported by significant daily cash and committed bank loan facilities
- High-quality order book with good prospects in the pipeline
- Total dividend up 13%

> The Group delivered a strong performance in 2023 against a difficult market backdrop."

Steve Crummett
Finance Director

Financial performance

Revenue for the year increased 14% to £4,117.7m (2022: £3,612.2m), with adjusted* operating profit increasing 2% to £141.3m (2022: £139.2m). This resulted in an adjusted* operating margin of 3.4%, a decrease of 50 basis points (bps) compared to the prior year (2022: 3.9%). Reported operating profit was up 59% to £140.6m (2022: £88.3m). Details on performance by division are shown on pages 48 to 65.

As discussed on page 196, an exceptional credit totalling £2.2m (2022: £48.9m charge) was recognised during the year in respect of building safety. Of this credit, £4.1m (2022: £9.8m charge) related to the Group's interests in joint ventures and was therefore recognised within the share of net profit from joint ventures in the consolidated income statement.

	2023	2022
Revenue	**£4,117.7m**	£3,612.2m
Operating profit – reported	**£140.6m**	£88.3m
Operating profit – adjusted*	**£141.3m**	£139.2m
Profit before tax – reported	**£143.9m**	£85.3m
Profit before tax – adjusted*	**£144.6m**	£136.2m
Basic earnings per share – reported	**254.2p**	132.7p
Earnings per share – adjusted*	**247.7p**	237.9p
Year-end net cash*	**£460.7m**	£354.6m
Average daily net cash	**£281.7m**	£256.3m
Total dividend per share	**114p**	101p

* See note 28 to the consolidated financial statements for alternative performance measure definitions and reconciliations.

Financial review continued

The net finance income increased to £3.3m (2022: £3.0m expense) primarily due to increased interest income on deposits as a result of rate rises during the year. Profit before tax was £143.9m, up 69% (2022: £85.3m) due in large part to the building safety charge in the prior year. Adjusted* profit before tax was £144.6m, up 6% (2022: £136.2m).

The tax charge for the year is £26.2m (2022: £24.4m), which equated to an effective tax rate of 18.2% and was lower than the UK statutory rate of 23.5% (2022: 19.0%) due primarily to amounts relating to exceptional items. The adjusted tax charge is £29.9m (2022: £27.0m), which equated to an effective adjusted tax rate of 20.7%. Almost all of the Group's operations and profits are in the UK, and we maintain an open and constructive working relationship with HMRC.

Reported basic earnings per share was 254.2p (2022: 132.7p). The adjusted* earnings per share increased 4% to 247.7p (2022: 237.9p). The total dividend for the year increased 13% to 114p per share (2022: 101p).

Financing facilities

During 2023, the Group maintained a total of £180m of available bank facilities, of which £165m mature in October 2026 and £15m in June 2026. No drawings on the facilities were made during the year. The banking facilities are subject to financial covenants, all of which were met throughout the year.

In the normal course of our business, we arrange for financial institutions to provide client guarantees (performance bonds) to provide additional assurance to the clients that the contracted works will be carried out. We pay a fee and provide a counter-indemnity to the financial institutions for issuing the bonds. As at 31 December 2023, contract bonds in issue under uncommitted facilities covered £174.7m (2022: £148.3m) of our contract commitments.

Further information on the Group's capital management strategy and use of financial instruments is given in note 26 to the consolidated financial statements.

Tax strategy

The Group's tax strategy, which is approved by the Board, is published on our website.

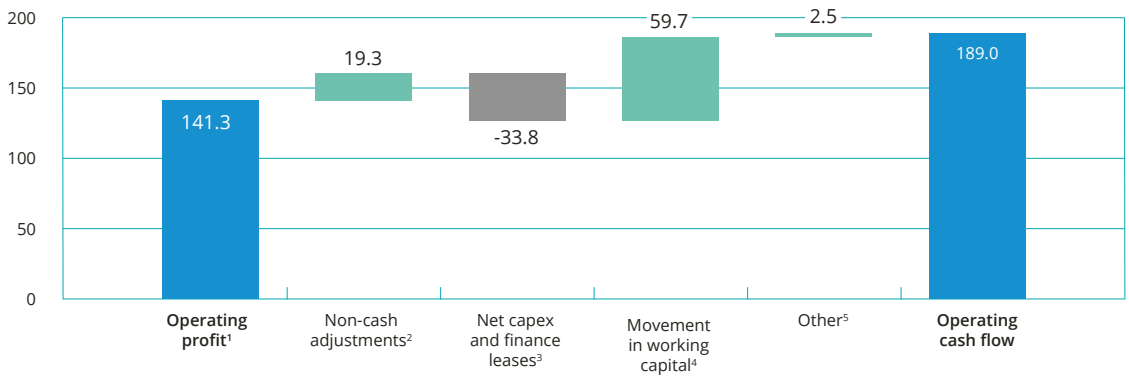
Net cash

Operating cash flow* in the year was an inflow of £189.0m (2022: £48.0m), after net increases in working capital of £59.7m (2022: £64.5m net decreases). The net cash inflow for the year was £106.1m, resulting in closing net cash of £460.7m (2022: £354.6m).

The average daily net cash* for the year was £281.7m (2022: £256.3m). Our strong cash position provides significant balance sheet strength and competitive advantage.

Operating cash flow*

(£m)



1 Adjusted – before intangible amortisation of £2.9m and exceptional building safety credit of £2.2m.
2 Includes depreciation £26.8m, share option expense £6.6m; less share of underlying net profits of joint ventures £14.1m.
3 Includes repayment of lease liabilities £21.2m, purchases of property, plant and equipment £14.3m and purchase of intangible fixed assets £0.3m; less proceeds on disposal of property, plant and equipment £2.0m.
4 Adjusted = before exceptional building safety debtors increases of £16.5m.
5 Increase in provisions £1.4m, shared equity redemptions £0.4m and dividend received from joint ventures £1.6m; less exceptional building safety provision decrease £0.6m, additional pension contributions £0.2m and gain on disposal of property, plant and equipment £0.1m.
* See note 28 to the consolidated financial statements for alternative performance measure definitions and reconciliations.

Net working capital

Net working capital is defined as 'inventories plus trade and other receivables (including contract assets), less trade and other payables (including contract liabilities) adjusted'. Net working capital (excluding non-cash movements[3]) has decreased by £62.6m to (£152.5m) as shown below:

	2023 £m	2022 £m	Change £m
Inventories	**344.7**	333.9	+10.8
Trade and other receivables[1]	**713.5**	646.3	+67.2
Trade and other payables[2,3]	**(1,210.7)**	(1,070.1)	-140.6
Net working capital	**(152.5)**	(89.9)	-62.6

1 Adjusted to exclude capitalised arrangement fees and accrued interest receivable of £2.2m (2022: £1.3m).
2 Adjusted to exclude accrued interest of £0.3m (2022: £0.6m) and joint venture finding obligations of £nil (2022: £4.0m).
3 Movements in trade and other payables also include the non-cash movements relating to the unwinding of discounting on land creditors (£3.0m) and other non-cash movements.

Movements in net working capital mainly relate to growth in the Group's construction activities which operate with negative working capital.

Paying promptly

Paying our supply chain on time is essential and makes us attractive to work for, and we aim to pay our suppliers as promptly as possible. We do not use any supplier finance arrangements. Our divisions have reported the following data under the payment practices regulations for the six months to 31 December 2023:

Invoices paid within 60 days	2023 %	2022 %
Construction & Infrastructure[1]	**99**	99
Fit Out	**97**	96
Property Services	**98**	97
Partnership Housing	**97**	96
Urban Regeneration	**95**	98

1 The Construction and Infrastructure divisions form a single legal entity for which this data is reported.

Provisions

Group provisions have increased by £19.2m. The most significant addition related to building safety provisions (excluding provisions relating to joint ventures) of a net £17.8m.

Secured workload

The Group's secured workload[1] at 31 December 2023 was £8,920.2m, an increase of 5.5% on the prior year end (2022: £8,458.9m). The divisional split is shown below.

	2023 £m	2022 £m	Change %
Construction	**796.4**	802.4	-0.8
Infrastructure	**1,689.4**	1,798.3	-6.1
Fit Out	**1,098.0**	841.4	+30.4
Property Services	**1,477.6**	1,204.4	+22.6
Partnership Housing	**2,034.1**	1,983.9	+2.5
Urban Regeneration	**1,825.6**	1,847.5	-1.2
Inter-divisional orders	**(0.9)**	(19.0)	–
Total	**8,920.2**	8,458.9	+5.5

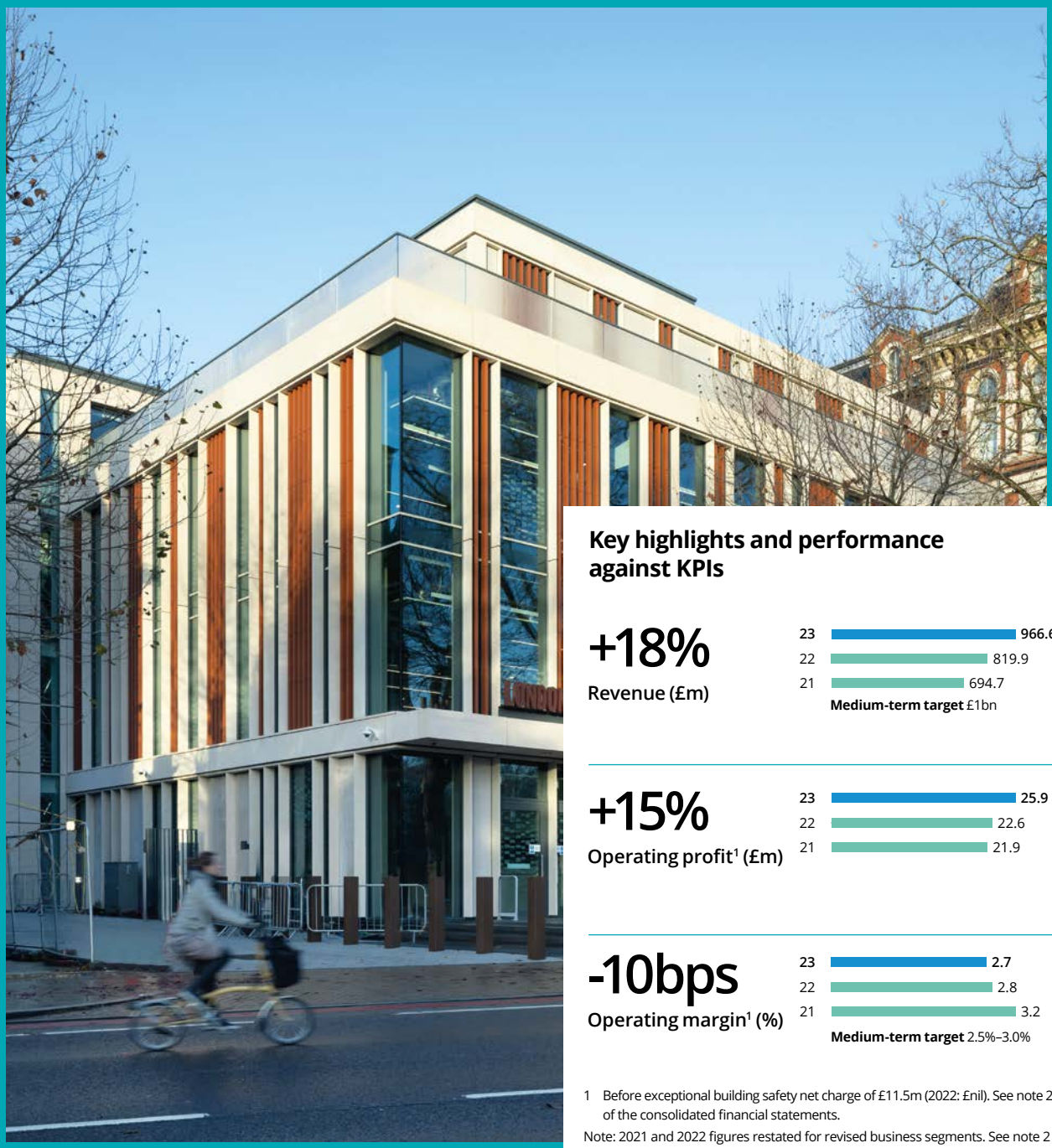
1 The secured workload is the sum of the committed order book, the framework order book and (for the regeneration divisions only) the Group's share of the gross development value of secured schemes (including the development value of open market housing schemes). The committed order book represents the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

Steve Crummett
Finance Director

Operating review

Construction

A good performance, achieving an operating margin in the middle of the target range. This reflects the division's focus on consistent, high-quality operational delivery and prudent risk management in its order book.



Key highlights and performance against KPIs

+18%
Revenue (£m)

+15%
Operating profit[1] (£m)

-10bps
Operating margin[1] (%)

1 Before exceptional building safety net charge of £11.5m (2022: £nil). See note 2 of the consolidated financial statements.

Note: 2021 and 2022 figures restated for revised business segments. See note 2 of the consolidated financial statements.

Operating review continued
Construction

The quick read...

- Continued focus on operational delivery and contract selectivity
- Operating margin in middle of target range
- Secured places on two new public sector frameworks
- Strong order book despite increased revenue
- 69% more work at preferred bidder stage than at prior year end
- Expected to meet revenue and margin targets in 2024

Construction's revenue increased 18% to £966.6m (2022: £819.9m), while operating profit increased 15% to £25.9m (2022: £22.6m), resulting in an operating margin of 2.7% (2022: 2.8%) being in the middle of its targeted range (medium-term target range of 2.5%–3.0%). This good performance was driven by the division's continued focus over many years on consistent, high-quality operational delivery and prudent risk management in its order book.

The order book at the year end was £796.4m, a reduction of 0.7% on the prior year (2022: £802.4m). Of the total, £652.1m (82% by value) is secured for 2024, which is broadly the same volume of work which was secured for the year ahead at the start of last year (2022: £645.9m). In addition to the total order book, Construction also had £1,284.4m of work at preferred bidder stage at the year end, 70% higher than the equivalent amount at the same time last year (2022: preferred bidder £757.7m).

In education, project wins included: the £42m Nine Elms primary school for the London Borough of Wandsworth; the £30m Star Radcliffe Academy, a 750-place secondary school in Greater Manchester; the £20m remodel of Dixons Newall Green Academy in Wythenshawe; the £18m Pear Tree school in Stockport which will provide 133 new places for children with special educational needs and disabilities (SEND); the £9.2m Gateford Park primary school in Nottinghamshire; Lakenheath primary school, Suffolk's first net zero school; and Orbiston Community Hub, a £41.7m facility accommodating two primary schools, a family learning centre and a community centre.

Work progressed on: the £75m Clive Booth student accommodation village, a four-block redevelopment for Oxford Brookes University due to complete in 2024; the £52m MIM (Mutual Investment Model) Schools contract consisting of three new-build, zero-carbon primary schools for the Welsh Government in Cardiff, due to complete in 2024 and 2025; the £41m retrofit and repurposing of Pen Y Dre High School, a zero-carbon initiative for Merthyr Tydfil Council; and the £38m redevelopment of a former Debenhams building into a brand-new city-centre campus for the University of Gloucestershire.

Completions in the year included: Buntingford First School (£10m), Hertfordshire's first carbon-neutral, Passivhaus primary and nursery school; and Trent View College in Scunthorpe (£12m), the first SEND school in the world with a hydrotherapy pool to achieve Passivhaus standards.

In healthcare, Construction has been awarded four contracts via the ProCure23 framework, including: clinical and theatre facilities for Harrogate and District NHS Foundation Trust; multiple new-build and refurbishment projects as part of upgrade work across several Mid and South Essex NHS Foundation Trust sites in Basildon, Pitsea and Thurrock; a community diagnostic centre (CDC) in Epping for Princess Alexandra Hospital NHS Trust; and a further CDC in Newmarket for West Suffolk NHS Foundation Trust.

In addition, through the NHS Shared Business Services framework, the division secured: two theatre refurbishments totalling £4.3m at Diana, Princess of Wales Hospital in Grimsby and Scunthorpe General Hospital for Northern Lincolnshire and Goole NHS Foundation Trust; a new £25.2m diagnostic centre for Norfolk and Norwich University Hospitals NHS Foundation Trust; and a new £35m veterinary school for the University of Central Lancashire. During the year, work completed on the Core, a £20m mixed clinical and training facility at Evelina London Children's Hospital for Guy's and St Thomas' NHS Foundation Trust.

Operating review continued
Construction

In other sectors, project wins included: a £45m sport and leisure centre in Stevenage; a £45m residential tower at Plot C2 New Bailey, Salford, the third residential project working in partnership with Urban Regeneration; Newton Nursery, a £21.7m modernisation of Forestry and Land Scotland's facilities to support the country's ambitious tree planting targets; redevelopment works at Accrington Square, partly funded by a £20m contribution from the Levelling Up Fund to Hyndburn Borough Council; and a £3.7m community sports complex in Lennoxtown, East Dunbartonshire. The £90m redevelopment of Woolwich Leisure Centre for the Royal Borough of Greenwich has progressed at pace, with the centre set to become one of the country's largest urban leisure hubs.

In 2023, Construction resecured its positions on Pagabo's national Medium Works Framework and the Southern Construction Framework and also secured places on both the Ministry of Justice framework and the Ministry of Defence's Defence Estate Optimisation Project, all of which will provide the division with further growth opportunities.

Divisional outlook

The medium-term target for Construction is maintaining its operating margin within the range of 2.5%–3.0% per year while increasing revenue to £1bn per year.

For 2024, based on its secured order book, together with the timing of projects at 'preferred bidder' stage expected to convert into contract and commence in the year, the division is expected to meet both its revenue and margin targets.

Construction

Medium-term targets

£1bn
Revenue

2.5%–3.0%
Operating margin

Strategy

- Focus on quality and margin above volume
- Strengthen regions where we have lower market share
- Continue to seek long-term workstreams

Market conditions

- Good visibility of work through established frameworks, mainly with the public sector
- Education, the division's largest market, is particularly strong

Our strategy in action

Helping our client achieve their project and sustainability goals

The University of Birmingham's goals on its £59.7m Molecular Sciences Building were to enhance digital construction, decarbonise its estate and give back to the local community.

Construction used a wide range of technologies on the project, including building information modelling and Gamma augmented reality to plan and test the design, clash detection software and Leica laser scanning to ensure precise positioning of each element, and Oculo, a 360° imaging tool enabling virtual walkthroughs of the site.

Our CarboniCa tool assisted with carbon reduction decisions. Raft (one large slab) rather than pile (column) foundations were selected, which help control vibration and reduce the amount of concrete needed. The project is aiming for a BREEAM Excellent rating.

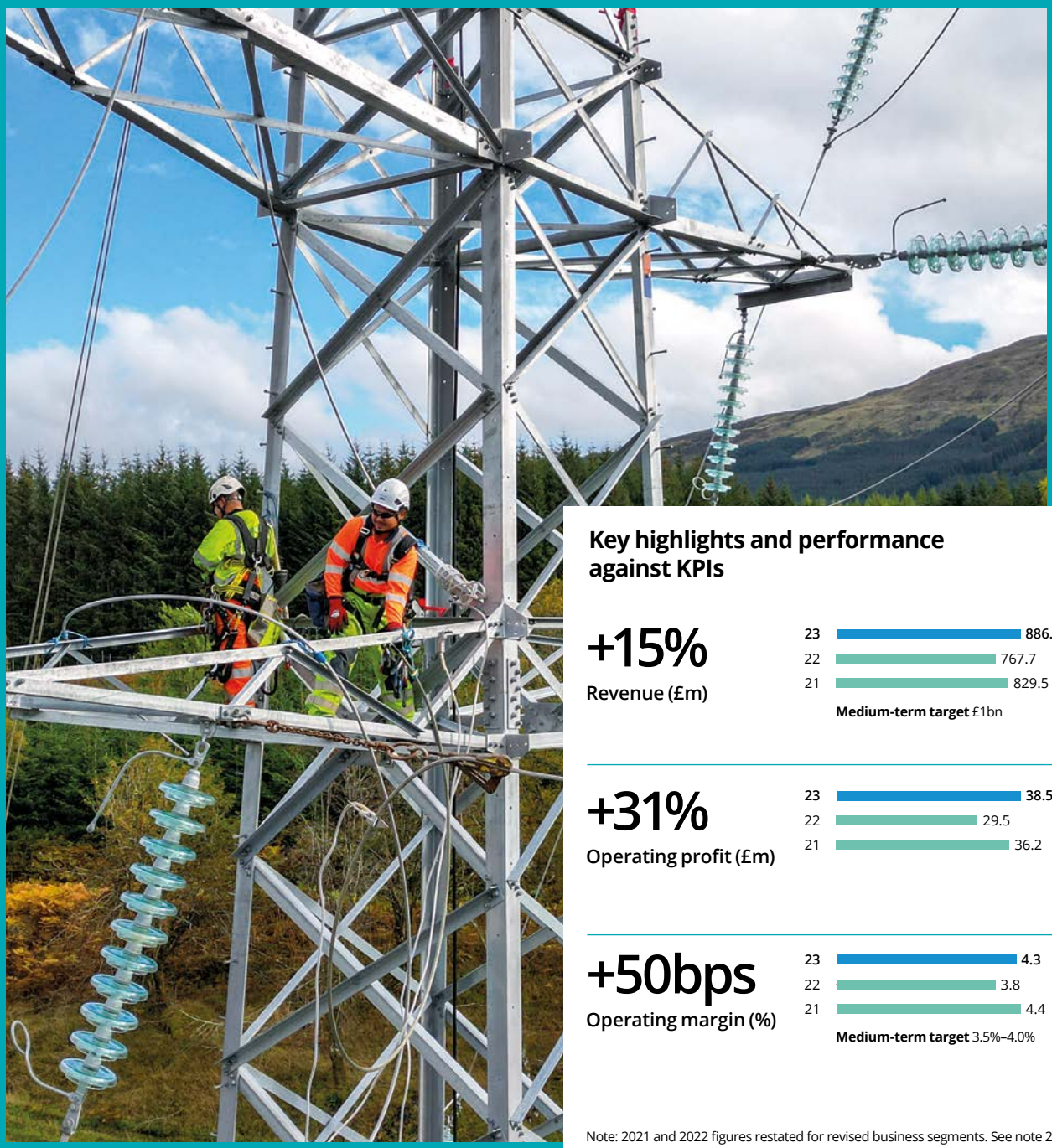
Construction generated £34m in social value on the project by offering work to 11 unemployed people, 52 apprenticeships including via the supply chain, and 12 work experience placements; donating over £11,000 to charity; volunteering 312 hours to support a local hospice; and procuring 64% locally and 56% using SMEs.

"If I had to describe Morgan Sindall in three words, I'd say: 'partner' because we've had a partnering approach around the challenges we've had; 'sustainable' ... because of everything we have put into the building; and finally, 'innovative' because of the different ways of doing things."

Trevor Payne
Director of Estates, University of Birmingham

Infrastructure

High-quality operational delivery contributed to profit and margin growth, resulting in an operating margin well ahead of the target range.



Key highlights and performance against KPIs

+15%
Revenue (£m)

+31%
Operating profit (£m)

+50bps
Operating margin (%)

Note: 2021 and 2022 figures restated for revised business segments. See note 2 of the consolidated financial statements.

Operating review continued
Infrastructure

The quick read...

- High-quality operational delivery
- Strong year of profit growth
- Operating margin well ahead of upper target range
- Awarded position on £2bn rail framework
- Over 95% of order book derived through frameworks
- Expected to make significant progress towards revenue target in 2024 and achieve top end of margin market range

Infrastructure[1] reported a strong year of profit and margin growth, driven by the timing and nature of projects delivered through its frameworks, and by high-quality operational delivery across the business. Revenue was 15% higher at £886.7m (2022: £767.7m) with operating profit of £38.5m, 31% higher than the prior year (2022: £29.5m), resulting in an operating margin of 4.3% (2022: 3.8%). This was well ahead of the top end of its target range for its operating margin of 3.5%–4.0%.

The order book at the year end was £1,689.4m, down 6% on the previous year end (2022: £1,798.3m). As in previous years, in excess of 95% of the value of the order book is derived through frameworks, consistent with the strategic focus on long-term workstreams from its clients.

1 Design results are reported within Infrastructure.

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

In highways, Infrastructure was awarded a project by Oxfordshire County Council to replace Kennington Railway Bridge on the A423 Southern Bypass. The division started work during the year on a £66m A12 project in Essex and completed its A11 works in Norwich, both part of National Highway's Concrete Roads Programme – Reconstruction Works Framework, a four-year, c£130m programme to repair or replace the concrete surface of motorways and major A roads in England. Work continued on safety-critical works for National Highways to upgrade the M40–M42 interchange, as part of the original Smart Motorways Alliance.

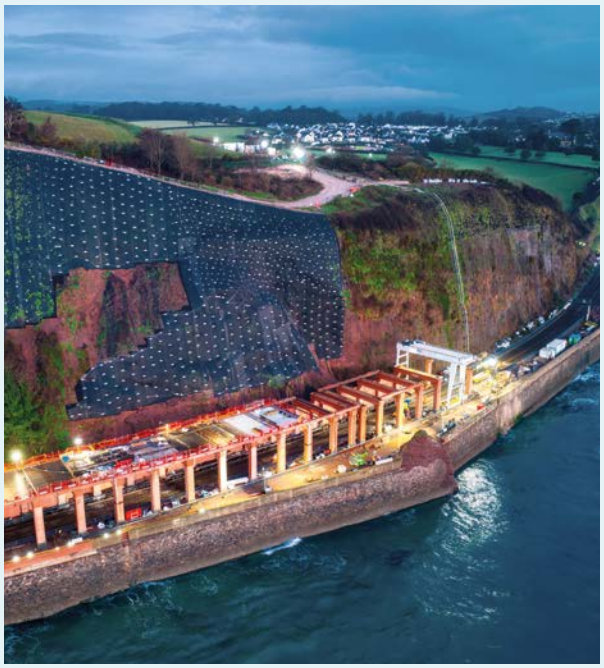
In rail, the division began work on an £88m project to extend Beckton Depot and a £40m project to upgrade Surrey Quays station. Both projects were awarded by Transport for London via its London Rail Infrastructure Improvement Framework. In addition, Transport for London appointed Infrastructure to upgrade Colindale station with a new ticket hall and step-free access and to conduct feasibility studies for providing step-free access to the next tranche of stations. Work continued on several schemes for Network Rail, including the Bangor to Colwyn Bay signalling power upgrade as part of the CP6 Wales and Western framework, the lift scheme at Liverpool Central Station under the Mersey Rail framework, and the Northumberland Line extension project. Work completed on the £48m Parsons Tunnel rockfall shelter extension, delivered for Network Rail under the South West Rail Resilience Programme (see case study below). Infrastructure was awarded a position on the CP7 Wales and Western Framework, a £2bn programme to be implemented over the next eight years.

Our strategy in action

Protecting an iconic coastal railway from extreme weather

The new 109m-long rockfall shelter at Parsons Tunnel in Devon will protect the railway from rocks and debris falling from the steep cliffs. The shelter was built using 185 pre-cast concrete units, coloured red to match the local sandstone, with extra protection from 7,000 sq m of stainless-steel mesh. The Infrastructure team designed a 45-tonne temporary gantry crane spanning the railway, reducing the need for rail-mounted lifting plant.

The location of the site, between a 40-metre cliff and the seawall, made delivering materials a challenge. As well as the concrete units, 4,100 tonnes of red sand were required for the shelter roof and 5,132 cubic metres of foam concrete for backfill between the shelter and the cliff. To facilitate access for delivery, the team created a pipe system that ran down the side of the cliff. The £48m structure was funded by the Department for Transport as part of Network Rail's South West Rail Resilience Programme, set up after the major storm of 2014 that blocked the railway for eight weeks.



Operating review continued
Infrastructure

In nuclear, decommissioning works continued for Sellafield on the Infrastructure Strategic Alliance and on the £1.6bn Programme and Project Partners contract. In addition, work progressed on the 10-year Clyde Commercial Framework for the Defence Infrastructure Organisation and on the D58 facility for BAE Systems.

In energy, work continued on projects in Dinorwig, Wales and Sunderland as part of the RIIO-2 electricity construction Engineer, Procure and Construct framework for National Grid. The division also progressed several schemes under Scottish & Southern Electricity Network's (SSEN) RIIO-2 framework for the construction, refurbishment and decommissioning of overhead lines, underground cable systems and substations operating between 33kV and 400kV across SSEN's transmission network. Work completed on the Peak District East Visual Impact Provision scheme for National Grid.

In water, work continued on various environmental improvement projects and wastewater treatment upgrades as part of the long-term AMP7 framework with Welsh Water. In addition, civil engineering works continued on the west section of the Thames Tideway 'super sewer' project to help prevent pollution in the Thames.

In the BakerHicks design business, new appointments included mechanical and electrical engineering on Alloa West, a wellbeing hub and school in Alloa, Clackmannanshire, which will include one of the first leisure centres in Scotland designed to Passivhaus standards, and a place on the Royal Parks Highways Engineering Consultancy Services Framework.

Design work completed in the year included: the £42.5m Allander Leisure Centre for East Dunbartonshire Council in Bearsden (see case study below); the Biological Development Centre for Boehringer Ingelheim in Biberach, Germany, which combines biological analytics, process development and drug production for clinical trials; Woodland View School in Waterside, Kirkintilloch; and the £60m Maybole Community Campus in South Ayrshire.

In addition, design work continued on: an innovative feed-additive facility for DSM–Firmenich in Dalry, North Ayrshire, which will reduce methane emissions from cattle; a multidisciplinary design for Scottish Prison Service's new HMP Highland in Inverness; a visual impact provision project in the Cotswolds for National Grid to replace overhead electricity infrastructure with underground cabling; and engineering services for the UK Atomic Energy Authority through its Engineering Embedded Resource Framework. The Ulster Hospital Acute Services Block in Belfast, for which BakerHicks provided design services, received a RIBA Regional Award, Royal Society of Ulster Architects (RSUA) Design Award and RSUA Sustainability Award.

Divisional outlook

The medium-term target for Infrastructure is to maintain its operating margin within the range of 3.5%–4.0% per year while also increasing revenue to £1bn per year.

Looking ahead to 2024, based on the timing of projects and the projected type of work, the division is expected to make significant progress towards its revenue target, with its margin expected at around the top end of its target range.

Infrastructure

Medium-term targets

£1bn
Revenue

3.5%–4.0%
Operating margin

Strategy

- Key sectors: highways, rail, nuclear, energy and water
- Remain disciplined on contract selection. In excess of 90% work through frameworks
- Only work in joint ventures if very clear advantages

Market conditions

- Strong pipeline of new projects, especially in defence, energy and nuclear
- Slower getting preferred bidder projects to site

Our strategy in action

Multidisciplinary expertise for a state-of-the-art leisure centre

The new £42.5m Allander Leisure Centre in Bearsden, East Dunbartonshire provides two swimming pools, a gym, dance and exercise studios, spin rooms, an eight-court multi-sports hall and café. A hydrotherapy pool offers health and therapeutic benefits for people with learning disabilities or mobility issues and families with young children. The project design was complex due to the mixed and highly specialised uses of the building and the large open spaces required. BakerHicks provided expertise in civil, structural, mechanical and electrical engineering, and building information modelling.

"The new Allander Leisure Centre ... will help to change local lives for the better."

Councillor Gordan Low
Leader of East Dunbartonshire Council

Fit Out

Another excellent, market-leading performance, underpinned by a continued focus on project delivery, enhanced customer experience and high-quality workload.

Key highlights and performance against KPIs

+14%
Revenue (£m)

+38%
Operating profit (£m)

+110bps
Operating margin (%)

Operating review continued
Fit Out

The quick read...

- Continued focus on quality delivery and customer experience
- Significant increases in profit and margin
- Operating profit margin target upgraded during the year
- Secured order book 31% higher than prior year
- Strong performance expected in 2024, with profit towards top end of revised target range

Fit Out delivered another excellent, market-leading performance in the year. Revenue increased 14% to £1,105.2m (2022: £967.5m) while operating profit increased 38% to £71.8m (2022: £52.2m), a record result for the division, resulting in a strong operating margin of 6.5% (2022: 5.4%). Underpinning this performance again was a continued focus on consistent operational project delivery and enhanced customer experience, supported by a high-quality workload.

The overall balance of the business has been reasonably consistent over recent years, with any movements in geography, type of work and sectors served not indicative of any longer-term trends.

The commercial office sector remained the largest sector served, contributing 80% of revenue (2022: 73%), with work in higher education amounting to 10% of revenue (2022: 11%). Public sector and work for local authorities dropped back slightly to 8% of revenue (2022: 12%), with the retail banking sector and others covering the remaining 2% of revenue (2022: 4%).

The geographical spread of the business also remained broadly similar to the prior year, with the London region accounting for 64% of revenue (2022: 60%). Other key geographies are served out of offices in the Thames Valley, Birmingham, Manchester, Leeds and Glasgow.

In terms of type of work delivered in the year, traditional fit out work was 85% of revenue (2022: 87%), with design and build work making up the remainder at 15% of revenue (2022: 13%).

The proportion of revenue generated from the fit out of existing office space was 77% (2022: 83%), with the fit out of new office space at 23% (2022: 17%). Of the fit out of existing office space, 84% of the work was refurbishment 'in occupation' compared to 16% where work was performed in non-occupied space.

At the year end, the secured order book was £1,098.0m, an increase of 31% from the previous year end (2022: £841.4m). Of this total, £816.3m (74%) relates to 2024 and the level of orders for the next 12 months is 38% (£225.4m) higher than it was at the same time last year.

Our strategy in action

Modernising sustainably

Stopford House was transformed from a "liability to an asset" as per the client's brief, and now provides Stockport Metropolitan Borough Council with 100,000 sq ft of statement office space in the heart of the city. The project was driven by three factors: the shift to hybrid working, sustainability and affordability. The result was a modern, flexible and collaborative workplace which the council believes will increase productivity and wellbeing. Elements such as furniture and flooring were reused, saving on costs as well as 16 tonnes of embodied carbon. New ventilation and heating systems have reduced the building's running costs, while the consolidation of offices has provided excess space that the council can lease out. The project won the 2023 British Council for Offices award for best corporate workplace in the North.

As a way of contributing to the local community, Fit Out and its supply chain volunteered to refurbish The Space, a cultural and wellbeing hub belonging to Stockport Race Equality Partnership. The renovation was shortlisted in the 2023 Black Professionals in Construction (BPIC) Awards for Best Community Project of the Year.

"This is probably one of the best sites we've seen and been involved with. We are already recommending you to other councils."

James Kington
Stockport Metropolitan Borough Council

Operating review continued
Fit Out

In addition to these secured orders, the division had over £150m of work in the pre-contract 'preferred bidder' stage at the year end, as well as in excess of £300m of work already tendered and pending a decision, and over £250m of work at the tender stage. The average value of enquiries received through the year remained at around £3m.

Commercial fit out projects won in London during the period included 114,000 sq ft for law firm Reed Smith near Spitalfields; two projects totalling 99,500 sq ft for Deloitte at New Street Square; 51,500 sq ft for Berkeley Estate Asset Management in Mayfair; 40,000 sq ft for British Land on Bishopsgate; 17,000 sq ft for Boston Consulting Group on Charlotte Street; and an 11,000 sq ft fit out for Burges Salmon at New Street Square.

Regional project wins in the period included 160,000 sq ft for Lloyds Banking Group in Leeds; 144,000 sq ft for Wirral Borough Council; 50,000 sq ft for Dojo in Bristol; 44,000 sq ft for Samsung in Cambridge; 27,000 sq ft for Arup in Bristol; 20,000 sq ft for Sky in Leeds; 12,000 sq ft for Playground Games in Leamington Spa; and 6,500 sq ft for VISA in Hampshire.

Commercial fit out projects on site or completed in London during the period included 750,000 sq ft for a global financial services firm in Canary Wharf; 360,000 sq ft for Marsh McLennan; 250,000 sq ft for a global financial organisation in Paddington; 225,000 sq ft for LandSec at New Street Square; 110,000 sq ft for a professional services firm in London; 109,000 sq ft for Aviva at 80 Fenchurch Street; 82,000 sq ft for a technology company; 41,000 sq ft for a law firm on Bishopsgate; 12,500 sq ft for a specialist insurer on Bishopsgate; 10,000 sq ft for Rolls-Royce at Kings Place; and 10,750 sq ft for telecommunications company Ciena in Shoreditch.

Regional projects completed included two projects for Arup in Manchester and Birmingham totalling 106,000 sq ft; 100,000 sq ft fit out of Stopford House for Stockport Metropolitan Borough Council; 81,000 sq ft for ROKU Europe in Manchester; 44,000 sq ft for Aviva in the city of Manchester; and 16,000 sq ft for Swiss Life Asset Managers UK in Birmingham.

In the higher education sector, projects won included 100,000 sq ft at Durham University School of Business; five projects totalling 45,000 sq ft for Queen Mary University; 27,500 sq ft for Aston University; 26,000 sq ft fit out at Birmingham City University; and 12,500 sq ft to fit out Keele University's Clinical Skills department.

Projects on site or completed during the period included a 150,000 sq ft HQ for GSK in London's Life Sciences Hub, known as the Knowledge Quarter; three projects for University College London totalling £40m; 54,000 sq ft for London School of Economics and Political Science; four projects for Anglia Ruskin University; a 25,000 sq ft refurbishment for Coventry University, including a laboratory; a 20,000 sq ft laboratory fit out for the Anatomy and Clinical Skills department at the University of Warwick; 16,000 sq ft for Loughborough University; two projects for the University of Portsmouth to refurbish 14,000 sq ft in the Medical Education Centre and Photography Suite; and the 19,000 sq ft fit out of a laboratory and workspace at Queen Mary University's Francis Bancroft building.

Fit Out

Upgraded medium-term target

£50m–£70m
Annual operating profit

Strategy

- Continued focus on enhanced customer experience
- Maintain current market share
- No compromise on quality of delivery

Market conditions

- Steady market driven by lease renewals and new lettings
- Visibility of several larger fit out contracts
- Market for basic fit out for landlords particularly strong

Design and build fit out projects won in the period included 30,000 sq ft of fully fitted labs and office space for Stanhope at MediaWorks in White City Place; 21,000 sq ft for Kajima Properties (Europe); 13,500 sq ft for Smiths Group plc; 8,600 sq ft for Centiva; and 8,000 sq ft for AEW UK Investment Management.

Design and build projects continuing or completed during the period included 90,000 sq ft for BAE Systems at Victory Point in Camberley; a 22,000 sq ft co-working hub for Industrious in London; 21,000 sq ft for C&C Group at The Pavilions in Bristol; a 15,000 sq ft fit out for TT Group in London; 11,000 sq ft for Butlins in Hemel Hempstead; 10,000 sq ft for Kobalt Music Group in London; 9,000 sq ft for Reflex Bracknell (a subsidiary of CLS Holdings) in Bracknell; and 9,000 sq ft for Chubb Fire and Security in Staines-upon-Thames.

Projects won under frameworks and corporate partnerships included £23m of works for the Mayor's Office for Policing and Crime, with a future order book of £25m; and 14 projects for landlord GPE totalling 84,000 sq ft. Works completed included the General Pharmaceutical Council in London through the Procure Partnerships Framework; two projects through the SCAPE Framework including the refurbishment of Nottingham City Council's Central Library and the relocation of Transport for London's Lost Property Office; and 23 projects through NatWest Group's Office, Retail and Capital Investment partnership programme.

Divisional outlook

Fit Out's medium-term target was upgraded in August 2023 to reflect the division's performance in the year, its market position and its future prospects, and it is now expected to deliver average annual operating profit of £50m–£70m.

Based on the timing of projects in the order book and the current visibility the division has of future workload for the year, Fit Out is expected to have another strong year in 2024, with profit towards the top end of this revised target range.

Property Services

Performance was impacted by cost pressures and operational challenges. A remediation programme is on track to return the division to profit in 2025.

Key highlights and performance against KPIs

+13%
Revenue (£m)

-491%
Operating (loss)/profit[1] (£m)

-1,170bps
Operating margin[1] (%)

1 Before intangible amortisation of £2.9m (2022: £2.0m).

Operating review continued
Property Services

The quick read...

- Increased revenue from established client contracts
- Operating loss due to operational and market challenges
- Medium-term target downgraded during the year
- Remediation programme and new management team in place
- Order book 23% higher than prior year, including a 15-year contract
- Expected to return to profit in 2025

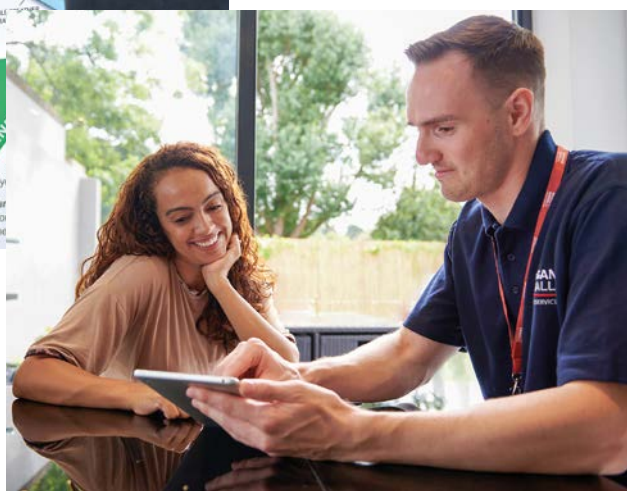
Property Services had a difficult and disappointing year, with the division reporting an operating loss in the period of £16.8m (2022: operating profit of £4.3m).

Revenue increased in the year to £185.2m, up 13% (2022: £163.5m). The growth was driven by some more established client contracts increasing their volumes to clear backlogs in repairs arising from previous years and to improve the overall quality of their estates, together with the new contracts mobilised in 2022 becoming fully operational.

However, the division experienced a significant number of operational and contract issues. Contributing factors included additional costs being required to support the start-up phases of more recently mobilised contracts, ongoing inflationary pressures and contract pricing mechanisms, and high levels of subcontract labour providing contract delivery challenges.

A remediation programme was initiated in the middle of the year, with the focus addressing client service and operational performance. As part of this programme, a number of key roles in the senior management team have been changed.

At the year end, the secured order book increased 23% to £1,477.6m (2022: £1,204.4m) and of this total, over 85% is for 2025 and beyond. Until the remediation programme has been successfully implemented and the operational delivery capability stabilised, no new material contracts are being bid and, as such, the growth in the year was as a result of growth in existing contracts and new contracts bid prior to the current operational issues. These new contracts are being mobilised under the new management team.



Operating review continued
Property Services

Included in the order book is a 15-year contract to deliver a major works investment programme for L&Q housing association, valued at £450m over the term. The programme includes estate and environmental improvements, planned mechanical and engineering works, and internal works for residents. The division was also appointed through four existing contracts to deliver retrofit and decarbonisation works under the Department for Energy Security and Net Zero's Social Housing Decarbonisation Fund Wave 2.1, with a combined two-year value of £31m.

In addition, a place was secured on two sub-lots of Abri housing association's Greener Futures Partnership framework, to deliver decarbonisation construction works over £2m in South and East England and London. The framework will run for an initial term of four years with the option to extend by up to a further three years, and initial opportunities have already started to come through.

Divisional outlook

In order to reflect the current trading performance and operational issues, the medium-term target for Property Services was downgraded in August 2023 to £7.5m operating profit per year.

Further progress with the remediation programme in 2024 is expected, which will stabilise and enhance the operational performance. A further loss is expected in 2024 at around half of that reported in 2023; however, the remediation programme is expected to leave the business positioned to return to profit in 2025 and beyond.

Property Services

Medium-term target

£7.5m
Operating profit

Strategy

- Improve operational efficiency and service levels

Market conditions

- Strong market for housing repairs which has significant political support
- Expect further growth from existing contracts

Our strategy in action

Delivering safer, more comfortable homes and community benefits

Property Services' programme for L&Q (see left) includes both external works and interior improvements for residents such as kitchen and bathroom replacements. The division is also helping the housing association increase its homes' energy performance to a minimum C rating by 2028.

To add value to the local community, Property Services is providing training and apprenticeships, and running sessions on digital inclusion and energy awareness. Since the project mobilised in the second quarter of 2023, it has delivered over £3m of social value, as measured using the HACT (Housing Associations' Charitable Trust) methodology.

The division is holding events throughout the programme to inform residents about the works taking place and social initiatives on offer.

Operating review continued

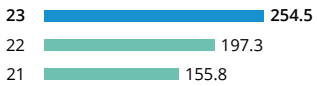
Partnership Housing

A robust performance. The division's focus on long-term partnerships with the public sector has provided resilience against a softer housing market.

Key highlights and performance against KPIs

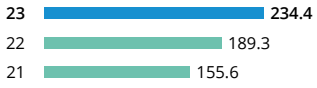
+20%
Revenue (£m)

+£57.2m
Average capital employed[1,2] (£m)

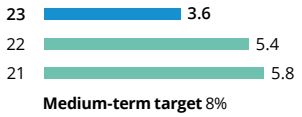


-18%
Operating profit[1] (£m)

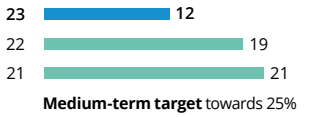
+£45.1m
Capital employed[1,2] at year end (£m)



-180bps
Operating margin[1] (%)



Return on capital employed[1,3] (%)



1 Before exceptional building safety charge of £nil (2022: £5.5m). See note 2 of the consolidated financial statements.
2 Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts).
3 Return on average capital employed = (adjusted operating profit plus interest from joint ventures) divided by average capital employed.

The quick read...

- Challenging market conditions, resulting in reduced operating profit
- Resilience provided by partnership model and an increase in contracting work
- Increase in average capital employed
- Progress made with strategy to increase mixed-tenure sites
- Substantial and high-quality order book
- Modest profit growth expected in 2024

In Partnership Housing, the partnership model focusing on long-term partnerships with the public sector provided the business with some resilience against a softer housing market in the year.

Throughout the year, demand for contracting remained strong and cushioned the full impact of lower open market sales within the mixed-tenure activities. At the same time, the division was able to accelerate construction of the contracted affordable homes on mixed-tenure sites to maintain activity.

Reflecting this, revenue for the year was up 20% to £837.5m (2022: £696.2m) with a marked shift in the balance towards contracting activities. Split by type of activity, contracting revenue (including planned maintenance and refurbishment) increased by 44% to £472.6m (56% of total revenue compared to 47% in the prior year) while mixed-tenure revenue was down 1% to £364.9m (now 44% of total revenue compared to 53% in the prior year).

As a consequence of this strategic change in business mix and the lower number of open market sales in the year in the mixed-tenure activities, operating profit reduced 18% to £30.5m (2022: £37.4m), resulting in an operating margin of 3.6% (2022: 5.4%).

Despite the challenging short-term market conditions, the longer-term development of the business and its partnerships with local authorities and housing associations has continued as planned. Reflective of this significant amount of ongoing activity and investment in future growth, the average capital employed for the last 12-month period increased by £57.2m to £254.5m (2022: £197.3m). The capital employed at the year end was £234.4m, an increase of £45.1m on the prior year (2022: £189.3m). As a result of the lower profit in the year together with the significantly higher average capital employed, the overall return on capital employed for the last 12-month period reduced to 12%.

The division has a substantial and high-quality secured order book, with clients increasingly looking to Partnership Housing to award work either through frameworks or through direct negotiation. The secured order book at the year end was £2,034.1m, 2.5% higher than the prior year end (2022: £1,983.9m) and, with c60% of its total value for 2025 and beyond, provides long-term visibility of workload.

Mixed tenure

Good progress was made with the strategy of increasing the number and size of mixed-tenure sites. Currently a total of 61 mixed-tenure sites are at various stages of construction and sales (up from 58 at the prior year end), with an average of 163 open market units per site (up from 157 at the prior year end). Average site duration is 48 months, providing long-term visibility of activity.

During the year, 1,923 units were completed across open market sales and social housing (including through joint ventures) compared to 1,936 units in 2022. The average sale price of £239k compared to the prior-year average of £258k has reduced due to an increased proportion of affordable plots being completed in the year. Increased contracting and pre-sold affordable homes compensated for a reduction in open market sales, as with the rest of the UK housing industry.

Of the total divisional order book, the amount relating to mixed-tenure activities decreased 9% to £1,167.1m (2022: £1,278.7m). 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 £821.1m at the year end.

Partnership Housing increased its portfolio of long-term joint ventures during 2023. The division executed a joint venture with Peabody to deliver 750 homes for phases two and three of the Thamesmead regeneration scheme, and secured planning on 450 units for phases two and four at Pendleton with Together Housing Group.

Other mixed-tenure work secured included a c£90m, 400-unit development in partnership with Saffron Housing Trust at Harleston, Norfolk; a 46-unit scheme in Skelmanthorpe, Huddersfield; and a 99-unit development in Hunstanton to deliver affordable, traditional open market and later living units with an extra care block to follow.

The division's new joint ventures with Suffolk County Council and West Sussex County Council progressed well during the year, with initial developments on site and others reaching detailed planning stage. The long-established partnership with the Borough Council of King's Lynn & West Norfolk continued to evolve with the award of the 226-unit Parkway scheme in Gaywood, while the partnership with Repton Property Developments, owned by Norfolk County Council, also continued to deliver. Compendium Living, Partnership Housing's joint venture with Riverside, launched sales on new phases of the Ings development in Hull and Castleward in Derby. The division was engaged to carry out preconstruction services for a 400-home regeneration scheme in Runcorn, Liverpool and anticipates starting phase one of the construction works in 2024.

Elsewhere, good progress continued to be made on other mixed-tenure schemes, in partnerships with Clarion Housing, Trafford Housing Trust, Together Housing Group, Flagship Group, Pobl Group, Hertfordshire County Council, and Homes England.

Contracting

Partnership Housing saw good levels of demand with clients increasingly looking to award work either through frameworks or direct negotiation.

Operating review continued
Partnership Housing

The total number of equivalent units built was 2,865, up from 2,010 in the prior year. Of the total divisional order book, the contracting secured order book was 23% higher at £867.0m (2022: £705.2m), of which £471.7m is for 2024.

Key contracting schemes awarded in the year included: the c£23m, 103-home Cocoa Works West development for Clarion Housing Group; a c£38m, 143-apartment scheme in Stevenage for the Guinness Partnership; a £50m, 159-unit scheme at Loxford Lane, Redbridge for the London Borough of Redbridge; a £40m, 110-unit scheme for the City of London Corporation in Sydenham Hill; and a £24m, 150-unit scheme in Coalville, Leicestershire for emh group.

Divisional outlook

Partnership Housing's medium-term targets are firstly, to generate a return on average capital employed of up to 25%; and secondly, to deliver an operating margin of 8%.

The average capital employed is expected to increase up towards c£275m–£290m, reflecting the increased scale of the business and stage of developments.

Looking ahead to 2024, no significant improvement in market conditions is expected although, with a potentially more positive backdrop for the housing market driven by the reduction in mortgage rates early in the year, modest growth in profit is expected in the year.

Partnership Housing

Medium-term targets

25%
Return on capital employed

8%
Operating margin

Strategy

- Increase in the size and number of mixed-tenure sites
- Geographical expansion
- Continue to invest for the future despite the downturn

Market conditions

- Slight improvement in private house sales, albeit from a very low base
- Contracting from housing associations and local authorities strong
- Good pipeline of new partnership opportunities
- Planning still a major challenge

Our strategy in action

Regenerating obsolete estates

Since 2013, Partnership Housing has been working with the Royal Borough of Greenwich on the One Woolwich programme to regenerate obsolete housing estates and provide a mix of affordable and private sale homes. The Trinity Walk development of 684 homes completed in 2022.

In 2023 the division began work on Trinity Park to deliver a further 766 energy-efficient units in two phases. The phases were re-planned once a greater need for family homes in certain areas was identified, and the proportion of affordable housing was increased from 35% to 55%. Work also began on 165 units at Trinity Rise, which will complete the One Woolwich Programme of 1,615 new homes in total.

Throughout the programme, Partnership Housing has donated over £300k to support local initiatives such as Shooters Hill College, GLLaB (Greenwich Local Labour and Business), Construction Youth Trust and Home-Start Greenwich, and over 90 apprenticeships have been created for local residents.

"Our partnership with Lovell and PA Housing is maximising the provision of affordable homes for those most in need in our borough."

Anthony Okereke
Leader of Royal Borough of Greenwich

Urban Regeneration

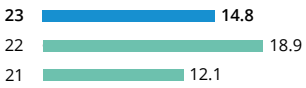
Good progress made with long-term regeneration developments, although operating profit impacted by the scale, nature and timing of scheme completions.

Key highlights and performance against KPIs

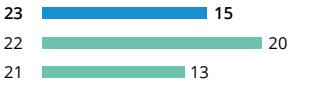
-24%
Revenue (£m)

-£20.7m
Capital employed[1,2] (at year end) (£m)

-22%
Operating profit[1] (£m)

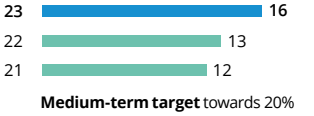


Return on capital employed[3] (last 12 months) (%)



+£2.1m
Average capital employed[1,2] (last 12 months)

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



1 Before exceptional building safety net credit of £13.7m (2022: charge of £43.4m). See note 2 of the consolidated financial statements.
2 Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts).
3 Return on average capital employed = (adjusted operating profit plus interest from joint ventures) divided by average capital employed.

Operating review continued
Urban Regeneration

The quick read...

- Long-term regeneration schemes progressed
- Operating profit lower due to timing of scheme completions across portfolio
- Permanent presence established in the Midlands
- Significant business win to deliver new town centre for Oldham Council
- Profit and return on capital employed expected to be lower in 2024 due to phasing of schemes and investment commitment

Although Urban Regeneration made generally satisfactory progress with its long-term regeneration developments in the year, operating profit of £14.8m was 22% lower than the prior year (2022: £18.9m) due to the scale, nature and timing of scheme completions across the overall development portfolio. The return on capital employed in the year was 15%, based on the average capital employed in the year of £98.6m.

Key contributors to performance were profit from a land sale in Slough; profit and development fees generated from activity in Wirral, Salford Central, and Forge Island in Rotherham; and the sale of 113 homes across the portfolio, including 54 sales at Novella, Salford, delivered by The English Cities Fund (ECF, a joint venture with Legal & General and Homes England).

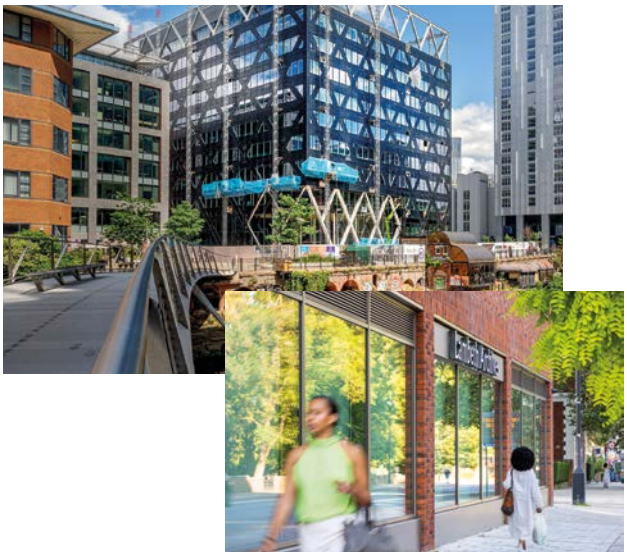
Good progress was made on several long-term developments, including: 113 affordable homes at Northshore in Stockton-on-Tees; 191 affordable homes for Haringey Council at Hale Wharf, Tottenham Hale through the Waterside Places partnership with the Canal & River Trust; and Forge Island, Rotherham, where work completed on a new bridge to connect the town centre to the new leisure destination being developed by the division. The final phase of Lewisham Gateway is nearing completion, delivering 649 homes for rent, retail space, food and beverage space, workspace and a multiplex cinema.

Construction began on a new neighbourhood at Stroudley Walk in Bromley-by-Bow to create 274 homes, with 50% of the scheme available for London Affordable Rent or shared ownership; and a 215,000 sq ft civil service hub in Blackpool, which will accommodate more than 3,000 civil servants. In Prestwich, the division has been consulting with the local community to progress plans in partnership with Bury Council to create a new heart in the village centre, including new homes, a community hub and public realm.

Completions in the year included Four New Bailey, Salford, where a 20-year pre-let had been signed with BT for 175,000 sq ft of Grade A office space; One City Park, a 56,000 sq ft workplace in Bradford city centre; 520 homes for rent at New Victoria; 106 homes at Islington Wharf in Manchester in partnership with the Canal & River Trust; a 64,000 sq ft workplace and 399-space multistorey car park at Stockport Exchange; two office buildings totalling 150,000 sq ft in Birkenhead; and 30 affordable homes at Brixton Centric, marking the completion of a nine-year regeneration partnership with Lambeth Council.

The ECF partnership made progress on a number of developments. Work continued on Eden, a 115,000 sq ft, speculative office building, designed to be net zero carbon in operation (see case study on page 65). At Manor Road Quarter in Canning Town, construction progressed on a new community of 355 homes (50% affordable), leisure and amenity space, and a 2.9-acre park, and consent was received from the London Borough of Newham for a second phase of 290 homes. At Greenhaus in Salford, work continued on 96 affordable Passivhaus homes. St Helens Borough Council approved a £69.2m funding package for the regeneration of St Helens, and a contractor was appointed for the first phase. Planning consent was secured for 100 sustainable, affordable, Passivhaus-accredited apartments as part of the 240-acre, mixed-use regeneration of Salford Crescent. In addition, ECF was selected by Stockport Mayoral Development Corporation to create a new walkable neighbourhood near the railway station, with over 1,200 new homes, and retail, leisure and workspace.

In terms of strategic development, the division enhanced its regional footprint in the year by establishing a permanent presence in the Midlands in order to leverage the significant opportunities in the region. As well as supporting the Arden Cross, Solihull scheme to which the division had previously been appointed as development partner, the business was also selected as Solihull Council's preferred development partner for the regeneration of Mell Square shopping centre during the year. In 2024, it is anticipated that net c£3m cost will be incurred in developing the long-term capability of the Midlands base to progress these and other potential opportunities across the region.



Operating review continued
Urban Regeneration

The division's development portfolio included 12 projects on site at the year end, totalling £932m gross development value[1], with a further nine projects, with a gross development value of £313m, expected to start on site in 2024.

At the year end, the regeneration order book amounted to £1,825.5m, a reduction of 1.2% on the prior year end. It includes a significant new business win in the year to partner with Oldham Council to deliver a vibrant town centre neighbourhood with 2,000 new mixed-tenure homes.

The regeneration order book also maintains a diverse regional and sector split:

- by value, 64% is in the North West, 34% in London and the South East, and 2% in Yorkshire and the North East; and
- by sector, 64% by value relates to residential and 19% to offices, with the remainder broadly split between retail, leisure and industrial.

Divisional outlook

The medium-term target for Urban Regeneration is to increase its rolling three-year average return on capital employed up towards 20%.

The phasing of schemes expected in 2024 reflects a hiatus between projects having reached completion towards the end of 2023 and new projects not starting until later years. The business will also commit c£3m of investment in the year to support the strategic growth of the Midlands region. As a result, profit (and the resulting return on capital employed) in 2024 is expected to be much lower than in 2023, with the average capital employed for 2024 expected to be c£80m–£90m.

1 Includes projects delivered through joint ventures at 100% of the project value to the joint venture.

Urban Regeneration

Medium-term target

20%

Three-year rolling average return on capital employed

Strategy

- Increase size and length of mixed-use regeneration schemes
- Grow presence in Midlands region
- Greater selectivity of higher return on capital employed schemes

Market conditions

- High level of large opportunities in the market
- Winning a good number of long-term development agreements
- Inflation and lower yields resulting in delays in starting developments

Our strategy in action

Delivering 2,000% biodiversity net gain

Eden is a new 12-storey workplace at New Bailey in Salford, designed to achieve net zero carbon in operation. The building's façade is wrapped in Europe's largest green wall, a feat of engineering containing over 350,000 plants belonging to 32 different species. The wall is harvesting rainfall and attracting birds, bees and bugs, and represents a biodiversity net gain of around 2,000%.

The project is on course to achieve a BREEAM Outstanding rating, placing Eden among the top 1% of new buildings in the UK for sustainability. It has also been commended by the UK Green Building Council and awarded a NABERS[1] Design for Performance target rating of 5.5 stars out of 6. Eden will provide a positive legacy both for the local community and the environment.

1 NABERS UK is a system for rating the energy efficiency of office buildings.

"Our city has a proud history of innovation, from the first steamboat to the first swing aqueduct, and we are thrilled to add Eden to that list."

Paul Dennett
Mayor of Salford

Managing risk

We have a clear governance framework in place for managing risk throughout our operations.

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

Our operational teams are highly skilled in their fields and valued for their ability to identify and manage the risk embedded in our day-to-day operations.

The mix of skills and experience of our people is a valuable resource at all key stages, from project selection, through bidding to project delivery. A detailed system of delegated authorities allows our people the ability to perform while at the same time being responsible and accountable for their actions.

Our senior management teams at divisional and Group level, aided by our internal reporting process, maintain oversight to ensure that all decisions and actions remain in line with our expectations and risk appetite.

Risk governance

Top-down
Define risk appetite; identify, assess and mitigate risk at corporate level

Group Board
Responsible for setting the Group's risk appetite and ongoing risk management, including assessing principal and emerging risks.

Audit committee
Assists the Board in monitoring risk management and internal controls and by formally reviewing Group and divisional risk registers.

Divisional boards
Identify risks facing their businesses and take measures to mitigate the impacts. Senior managers take ownership of specific risks and ensure that appetite levels are not exceeded.

Risk committee
Heads of key Group functions – legal, company secretarial, IT, finance, audit, tax, treasury and commercial – review Group and divisional risk registers before presentation to the Board and audit committee. The committee ensures inherent and emerging risks across the Group are identified and managed appropriately.

Group forums
Cross-divisional groups dedicated to topics such as health and safety, HR, IT security, social value and climate action. Meet regularly to discuss matters arising, taking action where necessary via established authorities and reporting lines.

Detailed risk reviews
Conducted twice a year by each division, recording significant matters in their risk registers. Each risk is evaluated, before and after the effect of mitigation, as to likelihood of occurrence and severity of impact on strategy.

Strategic planning
Objectives and strategies are set to align with the risk appetite defined by the Board. Any changes are reviewed at monthly Group and divisional Board meetings to ensure matters are addressed in an ongoing and timely manner.

Delegated authorities
Approval of material decisions – such as project selection, tender pricing and capital requirements – is assigned to appropriate levels of management up to and including the Board; for example, the Board must approve undertaking large or complex projects.

Divisional reporting
Divisional risk registers highlight risks and mitigations embedded in day-to-day operations for which every employee has some responsibility. Significant risks are monitored via rigorous reporting and communicated to the Board and delegated authorities.

Bottom-up
Identify, monitor, report and mitigate risk at operational level

Internal audit
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 focuses on significant projects, themes, trends and areas of concern.

Our risk profile

We remain resilient due to our decentralised approach, long-term partnerships, and strong balance sheet and order book.

The quick read...

- The government remains committed to investment in construction, infrastructure and regeneration
- Our strong balance sheet, contract selectivity, high-quality delivery, prudent risk management and long-term client and supply chain relationships give us resilience
- Our projects continue to benefit from preferred procurement routes that enable early collaboration with our clients and supply chain
- A substantial proportion of our work is with public sector and regulated industry clients

Our markets have continued to receive high levels of political support owing to their contribution to the UK economy and underlying demand. In addition, the Group's resilience and agility have been demonstrated during periods of macro disruption, which provides reassurance for the future.

This resilience is the result of a number of factors, including our strong balance sheet, our decentralised approach and ability to respond quickly to change, and our long-term focus on contract selectivity, high quality of delivery, prudent risk management and strong client and supply chain relationships (see pages 17 to 19 and pages 37 and 38).

The macro environment

UK construction continues to benefit from sustained political commitment to investment, as confirmed in the Autumn Statement, particularly in regeneration, construction and infrastructure (primary areas in the UK targeted for growth). In addition, our diversity of offering protects the business from cyclical changes in individual markets.

Inflation

Macro-induced inflationary pressures have eased, with projects agreed in 2022 now largely completed. Current projects are continuing to benefit from our preferred and predominant two-stage and negotiated procurement routes. These routes allow early collaboration with our clients and suppliers, resulting in more realistic customer budgets and greater pricing stability within the supply chain. In addition, we continue to benefit from mechanisms such as contingency allowances and/or indexation provisions on contracts that enable us to manage risk and predict outturns.

Inflation is still stretching budgets and resulting in some instances of us, our clients and our partners delaying decisions; however, our current order book and predominant public sector and regulated industry focus do offer some resilience, particularly as underlying demand is still strong.

In Urban Regeneration, construction cost inflation has provided additional challenges to the returns on some of its active developments and to the viability of some schemes being evaluated prior to commencement.

Supply chain solvency

There is an increasing risk that our supply chain partners may be trading with strained finances as a result of inflationary and borrowing pressures, compounded by increases in interest rates. Our teams are acutely aware of this and have increased their due diligence and provided help and assistance where appropriate. In some limited circumstances, we have supported key partners with more favourable terms to assist their cash flow while obtaining assurance on production progress and forms of guarantee.

We mitigate our supply chain solvency risk by treating our suppliers as partners and paying them promptly (see pages 37 and 38 and page 47). Building long-term relationships with our supply chain also provides us with a competitive advantage and superior project delivery. In addition, our decentralised structure spreads the risk across different industry sectors, markets and geographical regions.

While we have witnessed some issues in 2023 and expect to see further disruption during 2024, these have not been material to date.

Partnerships and public sector clients

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

Divisional perspectives

Construction and Infrastructure's long-term focus on selecting the right projects has continued to deliver margins within or above their target ranges together with positive cash positions. This reflects the work of the divisions over the past few years to improve risk management in all areas of their operations. Their respective future order books remain high quality, consisting predominantly of public sector work via two-stage or negotiated procurement routes in established sectors. We have maintained contingency allowances in contract pricing, and our preferred procurement routes allow us to pass through increased supply chain costs.

Managing risk continued
Our risk profile

Fit Out, while more susceptible to GDP and macroeconomic fluctuations, also enjoys a significant proportion of two-stage/negotiated work in its future order book with visibility into 2024. Demand remains high as offices are repurposed and the short timescale of most projects assists with control of any cost pressures.

Partnership Housing and Urban Regeneration have seen residential demand plateauing in 2023. There are several macro uncertainties that could continue to put pressure on our residential portfolio in 2024. For example, households are faced with cost-of-living and affordability challenges, resulting in lower confidence, and government incentives such as Help to Buy are limited. While we work closely with our local authority partners, planning delays remain a challenge for our development programmes. However, UK demand for affordable housing, where most of our portfolio resides, is undiminished, employment prospects remain positive and the incentive of all political parties is strong.

Whatever scenarios play out, we have several options available to help mitigate and manage potential fluctuations. For example, a large proportion of our schemes are in public sector partnerships. These are typically earmarked to improve and accelerate local estate regeneration and they therefore continue to be driven by central and local government, even in declining markets. These schemes are resilient because they are flexible; future phases can be remodelled to meet changing market dynamics, such as changes to the commercial and tenure mix or alternative funding structures. In addition, the schemes are subject to viability tests, eligible for gap funding, include profit-sharing arrangements, allow for alteration in the pace of the build, and include robust risk and capital controls, all of which reduces risk and helps manage expenditure by limiting exposure at key stages of development. As a result, we expect progress in some regeneration projects to slow but not stop.

The Building Safety Act has tightened safety regulations for residential buildings, and we are well advanced in our response to ensure that current live project specifications are compliant. We have investigated issues on past projects, engaged with the Department for Levelling Up, Housing and Communities (DLUHC), signed the developers' pledge, and made provisions, with the cash expected to be expended over the next one to two years. Some of the cash may be recoverable, although this will take time to resolve. More detail on our activities in relation to the Building Safety Act can be found on page 76.

Property Services has been affected in the short term by inflationary pressures and the impact of the time lag between immediate cost increases and the administration of contractual index-linked price adjustments.

Financing

In terms of resourcing our medium- and long-term plans, the Group remains in a strong financial position (see page 46 for details of our average daily net cash and committed credit facility).

People

Where we are recruiting, we are seeing significant interest in the new positions we have created to help us achieve our strategic objectives. However, we do recognise some challenges associated with changes in lifestyle, cost of living, poaching and an ageing workforce, which we must carefully manage.

A culture where people feel included and empowered continues to be a key ingredient of our success, and our commitments to tackling climate change and delivering social value are key to attracting and retaining the talent we need to grow and sustain the business. Read more on how we engage with and develop our people on pages 17 and 18 and pages 26 to 29.

This review should be read in conjunction with the viability statement on pages 96 and 97.

Principal risks

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

In 2023, the Board conducted its annual review of the Group's risk appetite and noted that macroeconomic uncertainty, inflationary and interest rate headwinds, and supply chain solvency continue to elevate certain risks towards the upper end of appetite. It noted that the Group's current strategy was well suited to deal with these issues; however, given their fluidity, the Board will closely monitor the situation during 2024 and, should the need arise, take appropriate action. The table below indicates our risk appetite and risk velocity (the speed at which the risk would impact the Group).

Risk appetite and velocity

Principal risk	Risk appetite	Risk velocity	Risk category	Internal/ external risk	Strategic priority
A. Economic change and uncertainty	Medium–high		Strategic	External	
B. Exposure to the UK residential market	Medium		Strategic	External	
C. Health and safety incident	Low		Operational	Internal	
D. Talent attraction and retention	Medium		People	Internal	
E. Partner insolvency or adverse change of behaviour	Low		Financial and operational	Internal	
F. Inadequate funding	Low		Financial	Internal	
G. Mismanagement of working capital and investments	Low		Financial	Internal	
H. Poor contract selectivity and/ or bidding	Low–medium		Operational	Internal	
I. Poor project delivery	Low		Operational	Internal	
J. Cyber activity/ failure to invest in IT	Low		Operational	External and internal	
K. Climate change	Low	[1]	Strategic and operational	External	

1 Risk velocity impacts are both short/medium term (e.g. severe weather event) and long term (e.g. temperature change).

Risk severity and resilience

Increase Stable Decrease

Risk velocity

Within three months

Within one year

Over a year

Strategy key

Increase our quality of earnings

Excel in project delivery for our clients

Consistently deliver on our Total Commitments

Secure long-term workstreams

Maintain a strong balance sheet

Managing risk continued
Principal risks

Strategic risk

A. Economic change and uncertainty

Despite economic headwinds, our market sectors remain structurally secure and our balance sheet strong. We believe the diversity of our operations, quality and volume of our pipeline of opportunities, and secured short- and medium-term workload in both regeneration and construction will provide a level of insulation against any specific adverse market conditions where they occur.

Risk description	Update on risk status	Mitigation	Change in risk
There could be fewer or less profitable opportunities in our chosen markets, including a decline in construction activity caused by macroeconomic shifts. Allocating resources and capital to declining markets or less attractive opportunities would reduce our profitability and cash generation.	▪ Continued scrutiny of UK construction balance sheets underpins our competitive position in the sector and gives confidence to our clients, employees and supply chain. ▪ In a declining market, a strong balance sheet allows us to remain agile, continue to take long-term decisions and respond to opportunities. ▪ The UK is continuing to invest in areas that complement our strategy (as confirmed in the 2023 Autumn Statement and cross-party statements), including affordable housing, education, critical infrastructure and urban regeneration. Our business model is designed to provide a mix of earnings across different market cycles. ▪ The Group has shown strong credentials during recent market turbulence and we expect to navigate any subsequent market fluctuations with limited material disruption. ▪ Our public and regulated sector focus, pipeline and order book, coupled with a strong underlying demand for buildings in these sectors, gives some comfort around macroeconomic challenges, provided that government funding and commitment continues.	▪ The diversity of our operations protects against fluctuations in individual markets while our decentralised approach enables our divisions to respond quickly to change. ▪ The Board regularly reviews the economic environment in which we operate to assess whether any changes to the outlook justify a reassessment of our risk appetite or business model. ▪ We stress-test our business plan against the current economic outlook to ensure our financial position is sufficiently flexible and resilient. ▪ We are strategically focused on a high-quality order book underpinned by a strong balance sheet and financial strength. ▪ A high proportion of our secured workload is with public sector and regulated entities via long-term arrangements, with a healthy level of demand and typically preferential terms. ▪ We continue to be very selective and our procurement routes, margins, contract terms and secured workload remain favourable. ▪ We use analytical software to enhance our understanding of our medium-term pipeline quality and risk, enabling us to predict trends more accurately and adjust our strategy in response.	— **Responsibility** The Board **Strategic priority**

Managing risk continued
Principal risks

Strategic risk

B. Exposure to the UK residential market

Government support for UK housing needs complements our product positioning. While government housing incentives have reduced, the homebuyer market continues to be supported by employment levels (including job vacancies) which are favourable and expected to remain so over the short to medium term. Headwinds such as interest rate rises and inflation could impact consumer confidence, mortgage availability and loan-to-value ratios. However, our portfolio is geared towards the affordable market which the government is expected to continue to incentivise.

Risk description

The UK housing sector is strongly influenced by government stimulus and consumer confidence.

Inflationary and interest rate pressures could challenge scheme viability, slowing down decision-making and project commencement.

If mortgage availability, affordability or consumer confidence is reduced, this could impact on demand, make existing schemes difficult to sell and future developments unviable, reducing profitability and tying up capital.

Update on risk status

- We experienced a reduction in sales activity in 2023. While average sales prices reduced by c£20k, this was due to the increase in the proportion of affordable plots being completed in the year.
- In Urban Regeneration, there are short-term viability challenges to navigate due to current inflation and interest rates. We are working through this with our partners and, where necessary, seeking additional gap funding and sources of finance with better terms. We expect progress in some regeneration projects to slow but not stop.
- Negative housing dynamics such as a reduction in consumer confidence due to lower real net disposable income could impact sales.
- Constrained planning remains a frustration and has the potential to delay our schemes. However, anticipated improvements in the system could allow further efficiencies and increase the speed at which we bring developments forward.
- Commentators suggest that household inflation should ease during 2024, which should help alleviate affordability issues.

Mitigation

- A rigorous, three-stage formal appraisal process is undertaken before committing to development schemes and capital commitments.
- We work closely with public sector partners and government agencies such as Homes England to secure extra development funding if required.
- We use less speculative, risk-sharing development models, subject to viability conditions, that lessen negative impacts from market fluctuations.
- On selected large-scale residential schemes, we seek to forward sell and/or fund sections to targeted institutional investors to reduce risk.
- Our residential portfolio has a wide geographical spread, protecting against regional market variations, and is geared towards providing an affordable product.
- Rather than building up a land bank, we target option agreements with landowners that limit and/or defer long-term exposure and boost return on capital employed.
- We regularly monitor and forecast our pipeline of development opportunities and secured workload, which includes monitoring key UK statistics such as unemployment, lending and affordability.
- For a large proportion of current schemes, we have the ability to slow (or accelerate) build rates should the need arise.
- Our partnership model provides resilience by allowing us to flex scheme phasing, timing, tenure mix and funding structures to suit varying market scenarios. The model can be de-risked by increasing the proportion of contracting work in Partnership Housing, forming strategic joint ventures and increasing the proportion of affordable units.
- Past, present and future government stimuli, such as the Help to Buy scheme, stamp duty relief and mortgage guarantee scheme for properties up to £600k, complement our product offering.

Change in risk

Responsibility

The Board, executive directors and divisional senior management teams

Strategic priority

Managing risk continued
Principal risks

Operational risk

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

Our first priority is to protect the health and safety of our key stakeholders and wider public. We have continued to focus on improving our safety performance by increasing health and safety awareness and promoting safe behaviours. Our challenge is to keep refining our approach to drive further improvement and ensure that everyone who comes into contact with our work, on and off site, goes home safe and well.

Risk description	Update on risk status	Mitigation	Change in risk
Health and safety will always feature significantly in the risk profile of a construction business. We carry out a significant portion of our work in public areas and complex environments. Accidents could result in legal action, fines, costs and insurance claims as well as project delays and damage to reputation. Poor health and safety performance could also affect our ability to secure future work and achieve targets.	▪ We saw an increase in safety incidents in 2023 due in part to our standards and procedures not always being adhered to. Our divisions will continue to promote safety awareness and safe behaviours as well as reviewing technological solutions to supporting site supervision (see pages 22 and 23). ▪ To address underlying trends contributing to safety incidents, we continued to focus in 2023 on trips, slips and cuts; material handling and storage; and the use of powered/non-powered tools. ▪ We have continued to look for trends in safety observations made by people on or visiting our sites and compare them to 'leading indicators' so that we can take a strategic approach to improvement. For example, a trend towards reduced supervision of sites during the summer would be analysed against the pattern of leave commitments of project staff and action taken to ensure that appropriate cover is always maintained. ▪ To supplement the work of our Group protecting people forum (formerly the health and safety forum), we have set up monthly meetings of safety leaders across the divisions, focusing on immediate issues, opportunities and lessons learned as they arise.	▪ The Board is responsible for health and safety, which is the first item on the agenda at every Board meeting. In addition, our responsible business committee focuses on our health and safety culture to drive better behaviour and performance. ▪ Individuals in each division, and on the Board and Group management team, are given specific responsibility for health and safety matters. ▪ Our Group protecting people forum meets regularly, with representatives from all divisions sharing best practice and exchanging information on emerging risks. ▪ We have well-established procedures in place including safety systems, audits, site visits, incident investigation and root-cause analysis, monitoring and reporting, and reporting of near-miss incidents and incidents that could potentially have resulted in serious injury. ▪ Our regular health and safety training includes behavioural change, housekeeping on site, and leadership engagement in driving site standards. ▪ Each division's health and safety policy is communicated to all its employees, and senior managers are appointed to ensure the policies are implemented. ▪ We have developed major incident management and business continuity plans, which are periodically tested and reviewed. ▪ All divisions are accredited to ISO 45001 for occupational health and safety. ▪ We continue to offer our colleagues a range of benefits that promote physical and mental wellbeing (see pages 23 and 24).	**Responsibility** The Board, Group management team, divisional senior management teams, protecting people forum **Strategic priority**

Managing risk continued
Principal risks

People risk

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

Our current success is helping us attract and retain people, and in the short to medium term we are focusing on increasing the Group's diversity. Where staff retention is challenged, this tends to be influenced by both social and business-related issues, for example lifestyle changes, poaching and an ageing workforce.

Risk description	Update on risk status	Mitigation	Change in risk
Skills shortages in the construction industry will remain an issue for the foreseeable future. If we fail to attract and retain the talent required to excel in project delivery and meet our clients' and other stakeholders' expectations, this could damage our reputation and our ability to secure future work and meet our targets.	▪ Improvements continue to be made to the working environment and investment made in technology and leadership training. Our voluntary staff turnover rate was 12% in 2023, compared to 15% in 2022. ▪ We are responding to the challenge of an ageing employee population and undertaking work to improve our diversity and inclusion (see pages 27 and 28). ▪ We are considered a leader in the sector in addressing climate emissions, which should help attract new recruits. We also offer an increasing digital emphasis and improved working environments, practices and employment packages. However, it is recognised that the sector has work to do in terms of being attractive and the first choice for young people.	▪ We give our people empowerment and responsibility together with clear leadership and support. ▪ We offer them a strong Group culture and attractive benefits, working environments, technology tools and wellbeing initiatives to help improve their working lives. ▪ We conduct employee engagement surveys and monitor joiner and retention metrics including voluntary staff turnover. We carry out annual appraisals that provide two-way feedback on performance, and conduct exit interviews when people leave. ▪ Our succession planning includes identifying and developing future skills. ▪ We provide training and development to build skills and experience, such as our leadership development and graduate, trainee and apprenticeship programmes.	**Responsibility** The Board, Group management team, divisional senior management teams **Strategic priority**

See pages 26 to 29 for more information about our commitment to developing people.

Financial and operational risk

E. Partner insolvency and/or adverse behavioural change

Some partners may have been trading with stretched finances following the pandemic, the unwind of government measures introduced to support business recovery, and the reverse charge VAT initiative. More recent inflation and interest rate increases have likely put further pressure on their balance sheets, leading to a greater likelihood of failure.

Risk description	Update on risk status	Mitigation	Change in risk
An insolvency of a key client, subcontractor, joint venture partner or supplier could disrupt project works, cause delay and incur the costs of finding a replacement, resulting in significant financial loss.	▪ Currently the main risk is supply chain insolvency. Some councils' financial issues could delay new opportunities; however, they appear to be supporting ongoing schemes and priority projects such as regeneration and education that align with our business model. ▪ As we are less able to rely on historical supply chain 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 transparency and, should a failure occur, afford us a greater ability to step in if needed. ▪ Current UK macroeconomic issues have stretched many of our supply chain partners' balance sheets. However, the strength of our balance sheet gives us the option to step in and help them manage short-term issues, such as cash flow, if and as deemed appropriate. ▪ Our strategy has been to reduce payment days and our supply chain partners regard us as dependable and responsible. In addition, we do not hold any cash in the form of retention from our preferred supply chain partners which helps reduce their cash flow pressures and the likelihood of failure.	▪ Our business model and order book are predominantly focused on public sector and regulated industries and commercial customers in sound market sectors, reducing the likelihood of a material customer failure. ▪ We carry out rigorous due diligence preconstruction, particularly on commercial clients and key supply chain partners, including a focus on payment behaviours, cash terms and profiling, and likely liquidity outcomes. Mitigation could include obtaining, where necessary, relevant securities in the form of guarantees, bonds, escrows and/or more favourable payment terms, or even, in some cases, declining a project. ▪ Formal due diligence is carried out when selecting joint venture partners, including seeking protection in the event of default by one of the partners. Joint ventures require executive director approval. ▪ We work with preferred or approved suppliers where possible, which aids visibility of both financial and workload commitments. ▪ Our business model reduces the concentration of supply chain risk as our divisions operate in different markets and geographical regions, using local supply chains. This helps ensure we do not overstress suppliers' finances or operational resources. ▪ We rigorously monitor work in progress, debts and retentions.	**Responsibility** The Board, Group management team, divisional senior management teams **Strategic priority**

Managing risk continued
Principal risks

Financial risk

F. Inadequate funding

Our committed bank facilities of £180m are in place, £165m until October 2026 and £15m to June 2026, which, coupled with our strong cash position, provide significant headroom.

Risk description	Update on risk status	Mitigation	Change in risk
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.	▪ £180m of bank facilities remained available but undrawn throughout 2023 and were extended by one year. ▪ During the reporting period and for the foreseeable future, our average net daily cash continues to be healthy and indicates the cash-backed nature of the business. ▪ Our balance sheet continues to provide assurance for our stakeholders and allows us to continue investing in regeneration schemes while remaining selective in construction.	▪ We have a Group-led, disciplined capital allocation process for significant project-related capital, which takes into consideration future requirements and return on investment. ▪ We monitor our cash levels daily and conduct regular forecasting of future cash balances and facility headroom. ▪ Our long-term cash forecasts are regularly stress-tested.	**Responsibility** Executive directors, Group tax and treasury director, divisional senior management teams **Strategic priority**

Financial risk

G. Mismanagement of working capital and investments

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

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

Managing risk continued
Principal risks

Operational risk

H. Poor contract selectivity and/or bidding

The quality of our long-term secured workload in our predominantly public and regulated industry sectors should safeguard our future performance, allowing us to continue selecting the right projects. Client budgets have become more stretched and preconstruction periods are taking longer. We continue to maintain sensible contingency levels, although these have narrowed, and there is scope for passing through inflationary costs, particularly on the essential and critical work we carry out.

Risk description	Update on risk status	Mitigation	Change in risk
In a volatile market where competition is high, a division might accept a contract outside its core competencies or for which it has insufficient resources. If a contract is incorrectly bid, this could lead to contract losses and an overall reduction in gross margin. It might also damage our relationship with the client and supply chain, leading to a reduction in work volumes.	▪ Our order book consists of a high proportion of public sector, regulated industry and framework clients with typically healthier risk profiles and is secured in limited competition. ▪ We have not changed the sectors or markets we operate in and are therefore unlikely to engage in a project outside of our capability. In construction, the majority of our work has been secured via negotiated and two-stage procurement routes[1]. ▪ Input cost pressures have eased with our older inflation-impacted projects now largely completed and newer projects benefiting from more realistic customer budgets and greater pricing stability in the supply chain. ▪ In construction, inflation is generally managed through negotiated and two-stage procurement routes, the pass through of cost, and the use of project contingencies and/or indexation that allow price increases to be recovered at a future date.	▪ It is part of our strategy and culture to be selective in our work by targeting optimal markets, sectors, clients and projects. ▪ We limit our participation in open market bids, conducting a large proportion of our projects via framework or joint venture arrangements with repeat clients who share our values. This provides a high probability of predictable and successful outcomes. ▪ When bidding, we aim for negotiated and two-stage procurement routes that allow us early engagement and collaboration, including the early identification of the most appropriate supply chain delivery partners. ▪ Our divisions select projects according to pre-agreed types of work, project size, contract terms and risk profile. A multi-stage process of bid review and approval includes tender review boards, risk profiling and a system of delegated authorities to ensure approval at appropriate levels of management. ▪ We profile the skills and capabilities required for the project to ensure that we allocate the right people. ▪ Our divisions have processes in place to select supply chain partners who match our expectations in terms of quality, sustainability and availability. ▪ We conduct a robust review of our pipeline and bids at key stages, including rigorous due diligence and risk assessment, and obtain senior-level approval.	— **Responsibility** Executive directors, divisional senior management teams **Strategic priority**

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

Managing risk continued
Principal risks

Operational risk

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

Our focus on project selectivity, the quality of our order book and our close engagement with our supply chain partners help reduce the probability of poor performance. Inflationary pressures have increased this risk but have been manageable, although stretched client budgets and supply chain finances and any related change in behaviours could increase the risk of disputes and/or failures. However, our longstanding relationships and focus on customer experience help us navigate significant issues when they arise.

Risk description

Changes to the scope of works and contract disputes could lead to costs being incurred that are not recovered, loss of profitability and delayed receipt of cash.

Failure to meet client expectations could incur costs that erode profit margins, lead to the withholding of cash payments and impact working capital. It may also result in reduction of repeat business and client referrals.

Not understanding the project risks may lead to poor delivery and could result in reputational damage and loss of opportunities.

Ultimately, we may need to resort to legal action to resolve disputes, which can prove costly with uncertain outcomes as well as damaging relationships.

Update on risk status

- Inflationary pressures have eased, with impacted projects procured in 2022 now largely completed. Newer projects are benefiting from customer budgets that are more aligned with the impacts of inflation; however, in some instances it can take time to remodel a scheme to ensure it is viable and this can lengthen the preconstruction period.
- There is a recognised shortfall in the construction labour market, exacerbated by impacts from Covid and Brexit. However, in the short term, while we have seen issues, we, together with our supply chain, are managing the situation.
- We have responded to the Building Safety Act, which primarily deals with building regulations and fire safety, with Construction, Partnership Housing and Urban Regeneration having updated their methodology to ensure that project specifications remain compliant. This includes a complete refresh of design management and procedures, increased on-site scrutiny and records, and engagement of independent fire consultants on more complex schemes.
- In terms of the Building Safety Act and related legacy issues, we completed in-depth analyses of our portfolios, engaged with the DLUHC, signed the developers' pledge and made provisions, with the cash expected to be expended over the next one to two years. Some of the cash may be recoverable, although this will take time to resolve. Where there have been concerns over the compliance of cladding materials or with the overall fire safety of buildings, and we have committed to rectifying them, appropriate remedial activity has or will be undertaken and/or expenditure provided for.

Mitigation

- We have well-established systems of measuring and reporting project progress and estimated outturns that take into account contract variations and their impact on programme, cost and quality.
- The strength of our supply chain relationships and preference to work with selected partners reduces the probability of project failure and helps to ensure we deliver predictable outcomes.
- Where legal action is necessary, we notify the Board, take appropriate advice and make suitable provision for costs.
- Formal internal peer risk reviews highlight areas of improvement and share best practice and lessons learned.
- Various Perfect Delivery[1] initiatives focus on improvements in product quality and predictability and client experience.
- Regular formal and informal stakeholder feedback allows us to intervene when required and refine our offering to provide exceptional outcomes.
- We continue to use and enhance our digital project management tools and commercial metrics that highlight areas for focus and provide early warnings, enabling early intervention in the construction cycle.
- Our divisions have worked closely with our supply chain for many years, providing predictable workloads and prompt payment. Maintaining good supply chain relationships has helped us navigate labour and/or materials availability issues.

Change in risk

—

Responsibility

Executive directors, divisional senior management teams

Strategic priority

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

Managing risk continued
Principal risks

Operational risk

J. Cyber activity and failure to invest in IT

To protect against increasing cyber attacks, we invest in security controls and partners, including liaising with government security advisers.

Risk description

Investment in IT is necessary to meet the future needs of the business in terms of expected mobility, growth, security and innovation to enable its long-term success.

It is also essential to avoid a cyber incident that could cause reputational and operational impacts and/or a loss of data or intellectual property that could result in significant fines and/or prosecution.

Criminal activity continues to increase and, while we are confident in our security strategy, it is continually checked and challenged.

Update on risk status

- During the year, we re-certified to ISO 27001 and the government's Cyber Essentials Plus Scheme.
- We have continued to enhance our visibility of security events and 'indicators of compromise' (signs of a data breach) using the latest technologies.
- The Board has agreed a rolling security strategy, supported by continuous improvement and review, to ensure we remain aligned with emerging risks and changes to the threats we face. Our IT security steering group is provided with additional funding as needed.
- As part of our 'Digital Resilience' programme, we ran several workshops, hosted by industry experts, to educate key stakeholders around incident response best practices. These focused on business impacts of a major incident as well as technical and legal aspects.
- Big data, digital construction and analytics are at the forefront of our latest technological developments, and we continue to develop the use of these, in addition to exploring Generative AI. Having used leading indicators for some time, we are trialling predictive tools to help identify issues early in the construction cycle, including programme, technical and commercial issues, and to enhance our current safety practices.
- In 2023, we invested in technology and business innovation, cyber security, cloud computing, operational and commercial systems enhancement, customer engagement technologies, and carbon and sustainability management.

Mitigation

- We have a dedicated Group team focused on providing a stable and resilient IT environment with continued investment in core infrastructure, security and applications. Our divisional IT teams focus on business-specific product support.
- Our IT security steering group presents an update to the Board on a biannual basis to ensure oversight and challenge.
- We adopt best practices to secure our people and data. We adhere to the National Institute of Standards and Technology Cybersecurity Framework.
- We commission an external industry expert to conduct regular cyber risk analysis on every device used in our network. The data collected is independent of our other security systems and acts as an audit of our security controls and their effectiveness.
- We engage with industry-leading partners to adopt appropriate technologies to protect the Group.
- Our IT security steering group provides governance and oversight of the Group's cyber strategy and strength, resources and funding.
- We run regular audits using different parties (both technical and non-technical) to confirm that our controls remain effective. Audit reports are shared with the IT security steering group.
- We train all our employees in data protection and information security including awareness and responsibilities.
- Our investment in IT enables all our people to work remotely and securely with minimal inconvenience.

Change in risk

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Responsibility

The Board, Group management team, IT security steering group (reporting to the Group finance director)

Strategic priority

Strategic and operational risk

K. Climate change

We have been recognised as leaders in our sector for our work in reducing carbon emissions (see page 20). However, there is still much to do as we progress towards our 2045 goal of net zero.

Risk description

For detailed information on our climate change risks, mitigations and opportunities, see pages 84 to 88 of our Task Force on Climate-related Financial Disclosures.

Page 82 sets out our climate governance, indicating Board oversight and management's responsibilities.

Update on risk status

Mitigation

Change in risk

—

Strategic priority

Emerging risks

While our principal risks address shorter-term issues, our strategic planning process includes identifying emerging risks that may affect our ability to deliver our objectives over the medium to longer term.

This is supplemented by reviews of any matters likely to impact strategy that take place as part of our twice-yearly internal risk management process and monthly Board reporting.

The following emerging risks are currently being tracked and monitored by the Board. The Board is satisfied with progress being made in these areas, although it will continue to revisit them as matters develop.

Long-term scarcity of skilled labour in the industry

Issue/risk	Update	Comment/outlook
This is a UK-wide issue which, while the sector works to broaden its appeal as a career option, will require considerable government and sector collaboration to resolve. This could impact our ability to deliver long-term growth and/or disrupt project delivery. It could lead to the ultimate resizing of the industry and the Group.	▪ We have witnessed some short-term issues but this has been largely mitigated by our predominant two-stage procurement approach; this enables early engagement of the supply chain, which helps them manage longer-term labour resourcing and planning. ▪ Off-site, modular and new methods of construction are already helping reduce the need for on-site resource and assisting with the skills gap/shortage. ▪ Technology will also play its part in reducing the need for site-based resource and attracting people into the industry but will require some upskilling to be undertaken.	▪ There is ongoing government action, such as incentivisation of school leavers and new education schemes. ▪ We are engaging with schools and local communities to encourage people to join the industry and provide training and work opportunities (see pages 28 and 29 and pages 42 and 43). Our diversity and inclusion initiatives (see pages 27 and 28) are designed to increase the talent pool available and make the industry more attractive. ▪ The relationships our divisions have built up with their supply chain help mitigate the effects of labour availability issues (see pages 37 and 38).

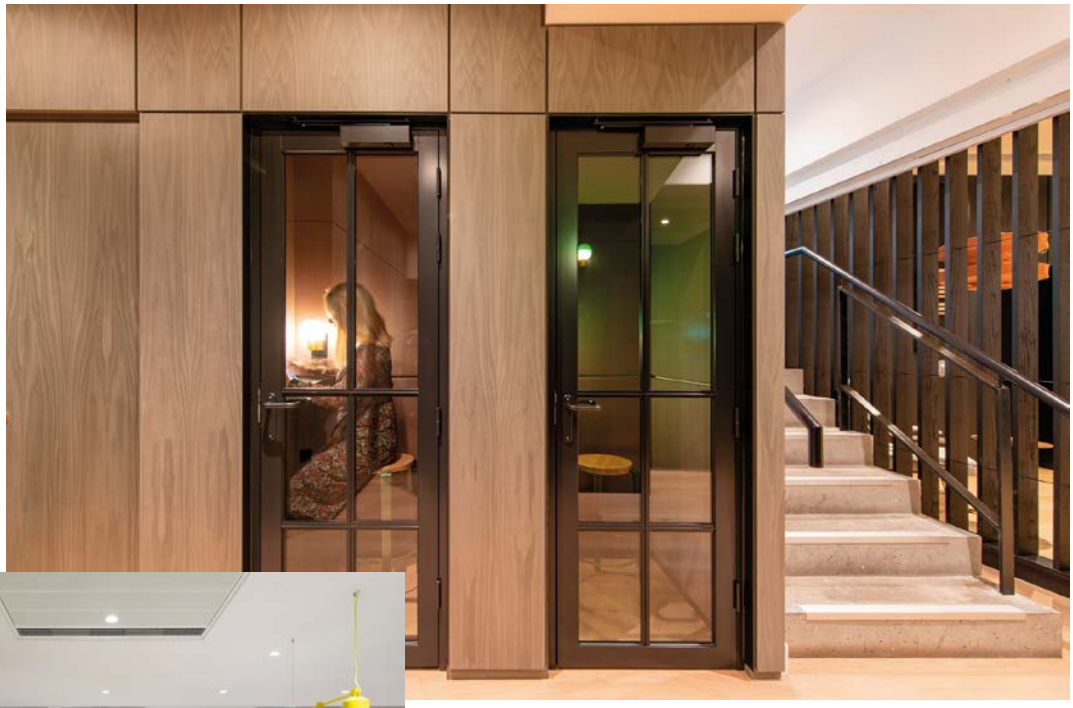
Technology's advancing pace

Issue/risk	Update	Comment/outlook
We do not adapt to (or adopt) new ways of working, invest in technology or develop skills and/or supply chain relationships that allow us to compete in the future marketplace. We fail to embrace innovative technologies to increase efficiency for the Group and our clients, resulting in a loss of competitive advantage and a reduced ability to secure repeat business.	▪ Our divisions develop and manage new technological tools and ideas that allow them to remain competitive in their markets. The tools are shared across the Group where appropriate to facilitate continuous improvement. ▪ Our divisions continue to evolve their use of data analytics, business intelligence tools, and their respective operational, procurement, commercial and financial systems (see page 77 for our investment in technology). ▪ Microsoft collaboration tools have provided seamless working, giving employees easy access to systems at home, on site or on the move, and strengthening our cyber security. ▪ We continue to adopt new and sustainable methods of construction, including prefabrication, modular and off-site production techniques (via our supply chain partners). We are remaining cautious, however, to avoid any longer-term defect and/or legacy issues.	▪ Artificial intelligence, machine learning, IoT (Internet of Things), augmented reality, robotics, exoskeletons, 3D printing, and virtual reality are evolving within the sector but are currently considered immature. We have taken some initial steps into these areas and are keeping a close eye on developments as they are set to provide greater efficiencies and safer working environments as they become more established. ▪ To reduce carbon emissions on our projects, we use on-site energy generation and alternative fuels for our vehicle fleet and generators. We have started designing low-carbon buildings and are using more energy-efficient construction methods according to requirements.

Managing risk continued
Emerging risks

People's changing working patterns

Issue/risk	Update	Comment/outlook
Working patterns are shifting fast due to trends that include: older, more experienced people wanting to work longer; younger people seeking meaningful jobs with more flexibility (by 2030, millennials and Gen Z will make up most of the workforce); people looking for more personally and professionally satisfying work; people wanting to move beyond the traditional 40-hour/48-week employment contract to something more flexible and tailored to their needs and stage of life; and advancing technology that facilitates remote and collaborative working, while also requiring new and different skills. We will need to monitor these trends so that we provide a working environment that attracts the best talent.	▪ Our ethos is to provide a working environment that is stimulating, collaborative, productive, respectful, flexible and safe. ▪ Covid accelerated a change in longstanding working behaviours across the Group towards greater flexibility. We are continuing to monitor changes in our colleagues' working patterns to ensure that we provide an environment in which they can thrive. ▪ We provide tools and technology at least comparable to those of our competitors and are constantly adopting and adapting to meet new demands.	▪ Given the anticipated pace of change, we will need to keep our approach under constant review. ▪ Offering fulfilling work, ongoing opportunities to grow and learn, flexibility and diverse, value-oriented workplaces will be essential. ▪ We need to understand the priorities and values of millennial and Gen Z employees and consider new models of working that work better for them and the business. This includes supporting employees in clarifying what they want their working life to look like in the future and identifying the skills they need to move in the right direction. ▪ Work will increasingly be shared with intelligent machines and robots, with implications for the type of skills and talent we will require. ▪ For the Group to prosper and grow over the medium to long term, we have an opportunity to change the way we work to attract the best talent, improve operational capability and increase efficiency.



Climate reporting

Task Force on Climate-related Financial Disclosures (TCFD)

We are committed to producing robust and value-adding climate-related disclosures that are relevant to our business and our key stakeholders.

Our strategy focuses on reducing our own carbon footprint while simultaneously supporting a just transition for our clients, supply chain, and the communities we work in by promoting a more sustainable built environment.

Our annual report complies with the requirements of Listing Rule 9.8.6 (R) (8) by including climate-related financial disclosures consistent with the 11 TCFD recommended disclosures. Our Group-level disclosures also represent the TCFD reporting requirements of our subsidiaries including Morgan Sindall Construction & Infrastructure Ltd and Overbury plc.

In addition, we comply with the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 and Limited Liability Partnerships (Climate-related Financial Disclosure) Regulations 2022 (referred to below as 'UK CFD').

The table below summarises our climate disclosures, notes where further detail on climate-related financial disclosures can be found throughout the annual report, and illustrates how climate-related risks and opportunities are fully integrated into our business strategy and operations. The table provides an update from our 2022 TCFD reporting and, where possible, we have continued to make use of TCFD guidance material including the TCFD technical supplement on the use of scenario analysis, TCFD Guidance on Metrics, Targets, and Transition Plans, and the 'Guidance for All Sectors' as set out in section C of the TCFD annex 'Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures'. We have also begun the process of alignment with the International Sustainability Standards Board's (ISSB) IFRS S2 Climate-related Disclosures, and preliminary disclosures have been made, where possible, throughout our TCFD reporting. We will continue to draw upon these resources and other resources to further strengthen our wider sustainability disclosures in the future.

TCFD recommendation	UK CFD	2023 highlights and reporting references
Describe the Board's oversight of climate-related risks and opportunities.	A description of the governance arrangements of the company or LLP in relation to assessing and managing climate-related risks and opportunities.	▪ Board approval of the Group's revalidated SBTi targets including the expansion of wider Scope 3 emissions and alignment with a 1.5°C scenario. More information can be found in the responsible business committee report on page 134. ▪ Approved increase of internal carbon charge from £70 to £90 for 2024. ▪ As we are a decentralised business, each division continues to develop its own decarbonisation strategy, with monitoring and oversight by the Group management team (GMT).
Describe management's role in assessing and managing climate-related risks and opportunities.		
Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.	A description of (i) the principal climate-related risks and opportunities arising in connection with the operations of the company or LLP, and (ii) the time periods by reference to which those risks and opportunities are assessed.	▪ Completed an internal quantitative assessment of identified transitional (climate transition) risks and opportunities for the Group. We have not identified any single financially material climate-related risk. ▪ Reviewed and updated our qualitative scenario analysis to reflect potential changes in the short, medium and long term. ▪ We continue to invest in high-quality conservation projects (see page 35).
Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning.	A description of the actual and potential impacts of the principal climate-related risks and opportunities on the business model and strategy of the company or LLP.	
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	An analysis of the resilience of the business model and strategy of the company or LLP, taking into consideration different climate-related scenarios.	

Climate reporting continued
TCFD

TCFD recommendation	UK CFD	2023 highlights and reporting references
Describe the organisation's process for identifying and assessing climate-related risks.	A description of how the company or LLP identifies, assesses and manages climate-related risks and opportunities.	▪ Completed our annual update on the Group's specific climate-related risk assessment as part of the scenario analysis process. A description of our mitigation responses is included in the table on pages 84 to 88. ▪ We proactively manage climate-related risks and capitalise on opportunities. See pages 30 to 36 and 84 to 90 for more information and examples.
Describe the organisation's processes for managing climate-related risks.		
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	A description of how processes for identifying, assessing and managing climate-related risks are integrated into the overall risk management process in the company or LLP.	
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	The KPIs used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those KPIs are based.	▪ Our Scope 1, Scope 2 and operational Scope 3 GHG emissions are disclosed in our SECR reporting (see pages 92 and 93). ▪ SBTi has revaluated our Scope 1, 2 and 3 targets. ▪ We continue to monitor our climate-related metrics relating to our management of regulatory, reputational and market risks, resource efficiency and resilience opportunities. We will continue to evaluate the most effective metrics for the future. ▪ The full extent of the KPIs and metrics we use to monitor progress across our Total Commitments can be found in our responsible business data sheet on our website.
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	N/A	
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	A description of the targets used by the company or LLP to manage climate-related risks and to realise climate-related opportunities and performance against those targets.	

Climate reporting continued
TCFD

Climate governance

Top-down

Group Board
- Has oversight of climate-related matters and approving net zero strategy and transition plan. Continues to expand its knowledge and expertise on climate-related matters through regular interaction with management teams and third-party engagements with investors, clients and other relevant stakeholders.
- Ultimate responsibility for climate-related matters rests with the chief executive. The finance director presents the Group's climate performance and plans to investors.
- At least once a year considers climate-related risks and opportunities as part of its annual risk appetite and strategic review and monitors performance against climate objectives.
- Continues to evaluate the inclusion of ESG factors (including climate change) in remuneration (see page 137).

Responsible business committee
- Assists Board in managing climate-related risks and initiatives to meet net zero targets and execute transition plan.
- Chief executive attends all meetings.

Audit committee
- Reviews and approves TCFD statement on behalf of Board.
- Considers climate risks twice a year as part of the Group's risk register review.

GMT
- A cross-functional team (see pages 106 and 107) responsible for agreeing our operational and strategic approach to managing climate change while the divisions manage climate-related risks and opportunities on a day-to-day basis. The GMT is led on sustainability by the Group finance director.
- Approves climate-related targets and objectives, investment requirements and strategic oversight for the divisions.

Bottom-up

Group director of procurement and sustainability
- Assigned by the Board with overall responsibility for delivering strategy and communicating with each division on how to address climate change. Advises the GMT.
- Has a high level of sustainability expertise and a variety of skills and experience relating to climate change and environmental management. Shares expertise across multiple forums set up to address industry challenges.
- Updates the responsible business committee twice a year, is a member of the risk committee and liaises with the Group's finance director and commercial director.

Divisional boards
- Responsible for implementing net zero carbon strategy, managing climate-related risks identified at divisional level, and delivering climate-related initiatives.
- Review divisional climate-related risks and their management.

Climate action group
- Cross-divisional group responsible for sharing information and advising on actions divisions can take to mitigate climate-related risks and deliver the Group's net zero strategy.
- Meets at least four times a year to report on progress, share best practice and identify opportunities.

Project teams
- Responsible for identifying climate-related risks and opportunities on projects and implementing appropriate actions to both mitigate risks and capitalise on opportunities.
- Support net zero strategy by collaborating on projects to reduce operational emissions and engaging with clients on ways to maximise climate-related opportunities.

Strategy: decarbonisation and resilience

We have continued to evaluate and monitor the materiality of the climate-related risks and opportunities originally identified in 2021 that were deemed to have the highest likelihood of manifesting, i.e. they have a 30% or greater likelihood of materialising over the short, medium or long term for the categories identified by the TCFD. The timeframes, defined below, align with our business and financial planning cycles.

Definition and explanation of timeframes

Short term 0–1 year	Medium term 1–3 years	Long term 3+ years
Twice a year, each division carries out a detailed risk review, recording significant matters in its risk register. This time horizon aligns with our ongoing projects, current operational expectations and challenges, and the bidding process for upcoming projects. We monitor and report on our Total Commitments performance on an annual basis.	To satisfy ourselves that the Group has adequate resources to continue in operation for the foreseeable future, we undertake an annual viability assessment covering a three-year period, which is in line with the Group's budgeting cycle. Most of our projects are short to medium term in nature. Risks and opportunities within this timeframe are therefore captured through our in-depth project risks review.	Our long-term risks and opportunities are assessed in line with our strategic planning, which considers emerging markets and changing client behaviours, technologies, and legal, regulatory and political changes. In assessing these risks and opportunities, we have taken into consideration our obligations and abilities to meet our long-term science-based targets. While our projects are generally short to medium term, we recognise that the projects we build and the developments we put in place will need to be resilient against a changing future.

Scenario analysis

In 2023 we reviewed and updated our qualitative analysis consisting of two scenarios, the first aligning with the Paris Agreement (RCP2.6) and the second a 'business as usual' 4°C scenario (RCP8.6). This exercise enabled us to consider changes in client demand, design and material options, and methods of construction. More information on our initial scenario analysis can be found in our 2022 annual report TCFD statement.

In addition, during the year we undertook a preliminary quantitative scenario analysis for our 'high' category risks and opportunities. While the main objective of the exercise was to produce preliminary financial ranges, the process of considering the various ways of approaching quantification and data collection proved valuable in helping to shape a firmer understanding of the key drivers of identified risks and their potential impacts on the business. We have adopted a financial materiality threshold of £6m, in alignment with our wider financial reporting.

Climate-related opportunities continue to rank higher than risks as our business is service-based, we own few long-term assets, and we secure the terms and conditions of projects prior to investment. Our assessment continues to indicate that risks are relatively immaterial and not expected to translate into a financially material impact on the business in the short to medium term, and that our strategic responses are robust and appropriate.

The table set out on the following pages details the process we undertook to conduct our qualitative analysis on all potential climate-related risks and opportunities and the additional quantitative analysis for our 'high' risks under a net zero scenario. We will continue to refine the process on an annual basis as more information becomes available and methodologies mature.

Climate reporting continued

TCFD

Increase Stable Decrease

Identified climate-related risks and opportunities

Drivers	Risk description in net zero scenario	Potential impact on business	Mitigation/strategic response
Transition risks			
Legal			
Timing of impact Long term **Current ranking** High **Change in risk** —	▪ Increasing legislation aimed at mitigating climate change and enhancing air quality in the form of a direct carbon tax or increases in congestion charges on vehicles. ▪ Enhanced Scope 3 emissions reporting that includes raw data from suppliers in place of estimates based on revenue. ▪ Adopting immature products or services (e.g. overheating, drainage issues, failure to meet net zero standards) that may result in legal proceedings against the Group. ▪ Increased focus on carbon, particularly operational carbon, may lead to clients looking at litigation if their space does not perform as designed.	▪ Increased tax burden or operational costs to meet new regulatory requirements. ▪ Increased costs associated with legal fees and tarnished reputation resulting in less work. ▪ Increased work on carbon reporting for projects. ▪ Increased scrutiny of mechanical and electrical operational energy performance may mean we need to provide more post-project support to ensure operational outcomes are delivered as per the design to avoid litigation. ▪ Regulatory requirements. ▪ Negative stakeholder perception making it hard to win contracts, impacting revenue.	▪ Continuing to steadily increase internal carbon charge to foster low-carbon decision-making. ▪ Over 10 years of externally assured and verified emissions accounting to ensure accurate reporting. ▪ Developing employee and leadership climate knowledge and skillsets (e.g. employees carry out carbon assessments and design new low-carbon designs (see page 32)). ▪ Participation in trade associations and periodic assessments of emerging regulation (see page 32). ▪ Continued integration of CarboniCa (see page 32). ▪ Engaging with insurance providers, legal firms and suppliers to prevent legacy defects or inadvertently taking on more risk. ▪ Design teams taking a precautionary approach to adopting new technologies.
	Quantification approach and findings *Approach*: We reviewed the Group's historical trajectory of decarbonisation and considered a range of future projections, including a worst-case scenario in which emissions increased slightly through 2045. We then applied the International Energy Agency's (IEA) proposed carbon prices from both the announced policies and net zero scenarios for advanced economies (£23 and £24 progressing annually to £149/£181 by 2045). *Assumptions*: Carbon prices increase gradually per year and are applied to Scopes 1 and 2 in the form of an additional annual tax payment to a regulatory body. *Findings*: Even in a slightly higher carbon tax net zero scenario, our forecast annual tax burden would not be material (>£3m per year). This is due to the deep decarbonisation efforts we have already made since setting our science-based targets in 2019.		

Climate reporting continued
TCFD

Drivers	Risk description in net zero scenario	Potential impact on business	Mitigation/strategic response
Regulatory			
Timing of impact Medium term **Current ranking** High **Change in risk** —	▪ Changes to regulations (i.e. Future Homes Building Standard) to meet new efficiency standards or the ban of certain materials. ▪ Addressing climate adaptation (e.g. cooling or banning construction in certain areas). ▪ New sector-wide standards to be met for construction projects.	▪ Increased operational costs associated with revising design specifications and material requirements that are passed on or reduce margins. ▪ Longer project timelines or increased likelihood of delays. ▪ Losing members of the supply chain who are not quick enough to adapt to these standards and requirements.	▪ Prioritising sustainable procurement practices and better decommissioning and recycling practices. ▪ Collaborating at the forefront of new building standards; developing expertise in net zero standards and innovative processes to reduce emissions at all stages of construction (see pages 32 and 33 for examples). ▪ Implementing technologies focused on energy efficiency, i.e. Passivhaus. ▪ Workshops and training for the supply chain on low-carbon design and materials. ▪ Preserving our supply chain management practices to gain favourable terms and agile procurement streams (see pages 37 and 38).
	Quantification approach and findings *Approach*: We considered the outcome of Construction's 2019 'circular twin' case, which demonstrated how carbon reduction of 67% in whole-life carbon and 52% reduction in annual energy consumption were achieved while remaining within the budgetary parameters of the original project. In addition, we considered how Partnership Housing is preparing for the anticipated Future Homes Standard set to come into effect in 2025. *Assumptions*: While incorporating energy-efficient designs and materials increases the construction cost of a home (the range varies based on supply chain management and technologies), its energy-efficiency features would increase overall value by between 7% and 12%. In a net zero scenario, UK energy bills remain high to incentivise decarbonisation, averaging at £3,000 per year. *Findings*: The new market value of energy-efficient homes (in a net zero scenario) would compensate the additional construction costs and the payback period for home users would be between four and six years. This means end users would ultimately save money when opting for a more energy-efficient home. However, homeowners already experiencing challenges in acquiring affordable mortgages may not be able to afford greener housing. Additional costs of net zero construction may be material and sway clients to prefer retrofitting existing buildings instead of new builds. We will need to maintain favourable pricing schemes and resilient supply chain management to control the additional costs that are ultimately passed on to consumers.		
Reputational			
Timing of impact Long term **Current ranking** Low **Change in risk** —	▪ Carbon commitments are insufficient or do not exceed those of our peers to win tenders, secure lending, or attract investors reliant on third-party ESG rating agencies for decision-making. ▪ Competitors 'catch up' and we lose our unique selling position around carbon that we have worked hard to earn.	▪ Failure to win contracts among clients prioritising sustainability credentials, secure lending or attract investors.	▪ Being one of the first construction companies globally to achieve target validation by the SBTi, with targets aligned to a 1.5°C scenario in 2023. ▪ Maintaining strong scores among ESG rating agencies. ▪ Executing responsible business strategy and pursuing innovative climate initiatives (see edie Award on page 20).

Climate reporting continued
TCFD

Drivers	Risk description in net zero scenario	Potential impact on business	Mitigation/strategic response
Technology			
Timing of impact Medium term **Current ranking** Low **Change in risk** —	▪ Increased costs or scarcity of latest efficient or low-carbon technologies to contribute to our decarbonisation efforts.	▪ Slowdown in decarbonisation progress/efforts or increased operational costs that are passed on to clients.	▪ A decarbonisation plan that is not reliant on unproven technologies or technologies that have yet to emerge. ▪ Leveraging relationships with our supply chain to find cost-effective methods of securing necessary equipment and being early adopters of technology.
Market			
Timing of impact Medium term **Current ranking** High **Change in risk** —	▪ Demand for low-carbon materials (e.g. timber, innovative steel, insulation, air source heat pumps) resulting in supply chain bottlenecks or increased costs.	▪ Increased operational delays or costs associated with procurement.	▪ Factoring potential delays into the decision-making process. ▪ Securing fixed rates and prices for projects. ▪ Preserving our supply chain management practices to gain favourable terms and agile procurement streams (see pages 37 and 38).
	Quantification approach and findings *Approach*: We evaluated the costs of key commodities (diesel, hydrotreated vegetable oil (HVO), low-carbon steel, and conventional steel). 2022 prices for diesel and HVO were used as a base price due to the already inflationary effects in place and we considered an additional increase of 50%–100%. The range in price increases accounts for a potential disruptive transition pathway, in which prices for HVO spike due to limited supply and competitive behaviour in the market or diesel prices increase as carbon taxes are passed on to end consumers to discourage usage. A worst-case scenario in which we are unable to electrify 50% of our commercial fleet due to limited technological advancements was also considered. IEA global prices for steel, both conventional and low-carbon, were applied to 2045 with our historical procurement spend serving as a base case scenario. As indicated by the IEA's announced and net zero scenarios, low-carbon steel prices are expected to reduce by between 11% and 32% by 2030 and between 35% and 39% by 2050 but remain considerably more expensive than conventional steel. *Assumptions*: We continue to prioritise the procurement of low-carbon steel and, where possible, opt for timber frames as part of net zero designs to minimise the embodied carbon of projects. This means that while we can reduce a portion of our overall future steel consumption, we will still pay a premium for low-carbon steel. In a net zero scenario, our net zero commitments would require the absorption of fuel price (both HVO and diesel) increases in the short to medium term until electrification replaces demand. *Findings*: Even when faced with significant diesel price increases (+100%), the additional costs do not reach materiality until the mid-2030s. This time frame provides sufficient time for technological advances in electric vehicles and machinery to be realised. The same percentage increase for HVO results in a material additional cost by 2028, which also provides sufficient time for electric generators and machinery to be adopted, hence reducing HVO demand overall. Our strategy of frontloading electrification (generators and cars) over the past few years provides resilience against future fuel price. Finally, as we are already procuring a high percentage of low-carbon steel, it is reasonable to expect that a decrease in price could offset any increase in procurement volume, resulting in a neutral or even beneficiary financial effect.		
Timing of impact Long term **Current ranking** Medium **Change in risk** —	▪ Market favouring improving existing structures over new builds.	▪ Decreased revenue associated with new builds.	▪ Cultivating fit out, retrofit and regeneration segments of business. ▪ Providing client solutions (e.g. CarboniCa).

Climate reporting continued
TCFD

Drivers	Risk description in net zero scenario	Potential impact on business	Mitigation/strategic response
Physical risks			
Chronic and acute			
Timing of impact Medium to long term **Current ranking** Medium **Change in risk** —	▪ Vulnerabilities due to increasing extreme weather events, specifically heatwaves and prolonged wet seasons. ▪ More unviable land (e.g. flood plains) resulting in reduced building plots. ▪ Saturated ground, inability to access sites, or damage to materials. ▪ Increased site run-off and pollution events due to storm surge.	▪ Project delays and increased risk of re-work. ▪ Increased supply chain disruption. ▪ Increased sales prices and reputational damage to joint venture partners making schemes less viable. ▪ Clients unhappy with thermal performance or buildings post-completion, and increased costs for remediation or repairing reputational damage.	▪ Due diligence process that evaluates the likelihood of risks. ▪ Working with insurance providers to understand climate impacts and potential mitigations. ▪ Non-water-intensive operations, and installation of water-saving/-efficient technologies to foster water conservation for end users and inhabitants. ▪ Negotiated contracts already consider extreme weather and protect the Group.

Drivers	Risk description in net zero scenario	Potential impact on business	Mitigation/strategic response
Opportunities			
Resource efficiency			
Timing of impact Medium to long term **Current ranking** High **Change in opportunity** —	▪ More efficient machinery has proven to be cost neutral at times. ▪ Efficient buildings reduce electricity consumption. ▪ Increased demand for use of recycled materials in new designs and circular economy opportunities for supply chain partners.	▪ Reduced operational costs from fuel; minimised transportation or haulage costs. ▪ Decreased costs for waste disposal. ▪ Reduced costs of projects.	▪ Increased internal carbon charge from £70 to £90 per tonne CO_2e to incentivise transition. ▪ Engaging in Passivhaus construction and piloting new technology (see pages 32 and 33). ▪ Developing new recycling and decommissioning standards (see page 36). ▪ Use of CarboniCa (see page 32).
Energy sources			
Timing of impact Short to medium term **Current ranking** High **Change in opportunity** —	▪ Using low-emission energy such as renewable energy or alternative fuels.	▪ Reduces energy costs as fossil fuel cost increases.	▪ Already using renewable energy and alternative fuels (see page 35). ▪ Engaging with the Supply Chain Sustainability School to promote the accessibility of new energy sources.

Climate reporting continued
TCFD

Drivers	Risk description in net zero scenario	Potential impact on business	Mitigation/strategic response
Resilience			
Timing of impact Short to medium term **Current ranking** High **Change in opportunity** —	▪ Supportive government incentives to develop low-carbon solutions to meet net zero targets.	▪ Tax incentives, deductions. ▪ Competitive advantage against peers for public projects.	▪ Development of CarboniCa and net zero buildings (see page 32).
	▪ Partnership Housing retrofitted 370 homes to the PAS 2035 retrofitting standard through the government's Social Housing Decarbonisation Fund (SHDF). ▪ Property Services retrofitted 345 homes to the PAS 2035 standard through the SHDF.		
Products and services			
Timing of impact Short to medium term **Current ranking** High **Change in opportunity** —	▪ Greater demand for low-carbon builds, or requirement that new construction be net zero. Retrofit demand to adapt to warmer climate.	▪ Increased revenue and additional project prospects. ▪ Improved reputation, further driving demand for business.	▪ Net zero and Passivhaus construction (see pages 32 and 33). ▪ Use of CarboniCa on 59% of projects. ▪ Developing new methods and innovative techniques to respond to client demands (see pages 32 and 33).
	▪ 38% of Construction's revenue and 59% of Fit Out's revenue generated from sustainability-accredited projects.		
Timing of impact Short to medium term **Current ranking** High **Change in opportunity** ^	▪ Demand for climate-adaptable or resilient assets or for building assets to withstand the physical impacts of climate change (e.g. highway improvements, water capacity and rail extensions). ▪ Incorporating more greenscaping to combat excess flooding.	▪ Increased revenue and bidding prospects for Infrastructure division. ▪ Changes to design process to incorporate greenscaping and more natural vegetation.	▪ Strategic focus on achieving a biodiversity net gain on all future projects. ▪ Incorporating greenscaping and biophilic designs for clients. ▪ Decarbonisation of UK infrastructure through our projects (see page 32 for examples).
	▪ £67.5m of revenue from infrastructure construction and design, repair, and maintenance services for wastewater. ▪ £148.7m of revenue from engineering and construction services for railway infrastructure.		

Resilience of our strategy

Our qualitative and quantitative scenario analysis, along with our annual climate-related assessment, highlights the resilience of our business strategy to climate-related risks, and we have already positioned ourselves to take advantage of the opportunities associated with a transition to a low-carbon economy.

We leverage our reputation as leaders in low-carbon construction and retrofitting and our designs and developments are frequently delivered to low-carbon accreditations (such as BREEAM, LEED and SKA) and incorporate green living spaces or eco-building designs.

The scenario analysis also reveals that our climate risk management strategy reinforces and helps maximise climate opportunities. For example, investing in low-carbon design skillsets for our teams enables us to tackle operational and embedded carbon in our projects while also increasing our competitiveness. This is also supported by our carbon reduction tool, CarboniCa (see page 32), and distinguishes us from our competitors. The scenario analysis reveals that because we have ambitiously pursued our responsible business strategy and achieved a significant reduction in carbon over the past four years, we are in a strong position to address the potential regulatory and market forces associated with a net zero scenario. However, maintaining strong supplier relationships and convincing clients to prefer low-carbon products and services remains critical.

Additional information on how the business is responding to the energy transition, including impacts on our products and services, financial planning, business model and strategy are outlined in our responsible business strategy and performance section and exemplify key characteristics of our transition plan that will be published later in the year (see pages 32 to 40).

Risk and opportunity management

Our climate risk management is integrated within our wider risk management process which is set out on pages 66 to 79. Following a top-down, bottom-up approach, climate-related risks and opportunities are identified and assessed at Group and divisional levels and across all activities, geographical regions and business areas. The identification and assessment process continues to evolve and be informed through internal workshops, engagement with clients and suppliers and our strong climate governance (see page 82). As with our wider risk management approach, climate-related risks at divisional level are mapped to a matrix evaluating likelihood and severity. Emerging climate risks, such as shifts towards more sustainable methods of construction and emerging legal and regulatory frameworks, are reviewed and we carry out regular horizon scanning to consider changes in regulation, legislation and policy. Climate risk assessments are reviewed and approved as part of our schedule of delegated authorities, which assigns approval of material decisions to appropriate levels of seniority. We believe this approach to be the most responsible means of incorporating climate considerations into our overall risk management and that it will produce the most resilient outcomes for the Group. In 2023, we reviewed our climate risk assessment, considering both the IEA's announced policies and net zero scenarios, and updated it where necessary.

The table below shows our approach to climate risk assessment and management, and how climate risk is integrated within our overall risk management process.

Integration of climate risk management within our wider risk management

Group risk

- The Board is responsible for determining the Group's risk appetite, including climate risk, ensuring that risk is managed appropriately and that there is an effective risk management framework in place.
- The Group's risk committee meets twice a year to review risks, including those relating to climate change.
- The Group head of audit and assurance retains responsibility for the overall risk management system and its appropriateness is reviewed by the audit committee.
- We understand climate-related risks to be multifaceted and indirect, often reinforcing existing principal risks.

Divisional risk

- Each division is certified to the ISO 14001 Environmental Management System.
- Climate-related risk identification and management takes place twice a year when divisions undertake a detailed review of their risk registers. Any issues that arise are dealt with in accordance with the divisions' usual operational procedures. If any issue falls within the parameters of our delegated authorities, it will be escalated accordingly.
- The divisions identify and assess climate-related asset-level risk through site and asset-level reviews, which cover operational risks, and supply chain reviews, which include addressing downstream and upstream risks. These reviews take place on a regular basis, and in many cases, more than once a year.

Operational risk

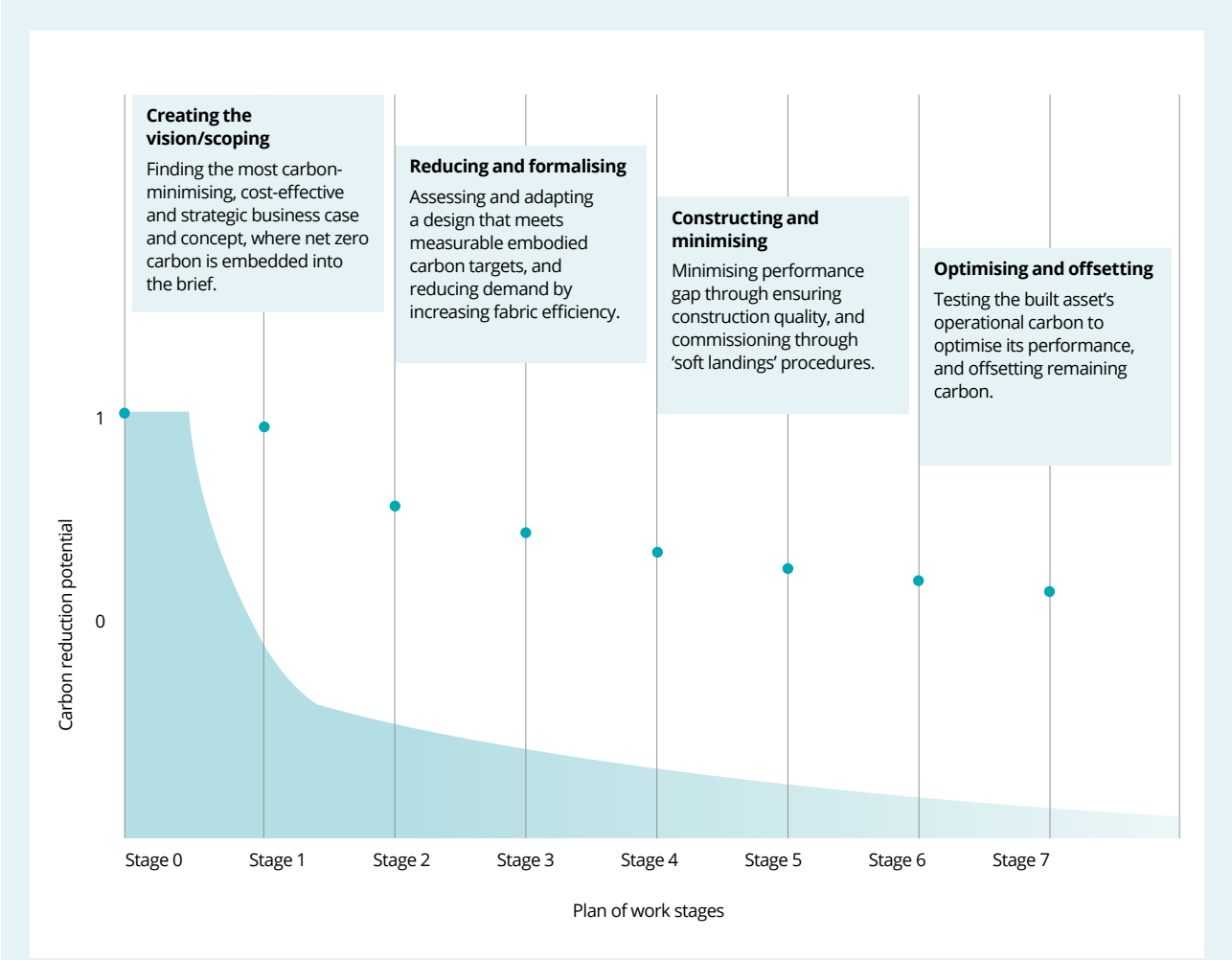
- Each project includes risk assessment and management, factoring in potential physical risks due to climate change.
- The use of our CarboniCa tool has been extended. In 2023, it was used on 59% of our projects.
- Project cost and budgetary parameters are set at the tendering stage and agreed with the client prior to the commencement of work.

Climate reporting continued
TCFD

Carbon reduction opportunities

Climate-related opportunities on a project are identified and assessed as part of our operational process, beginning at the bidding stage when considering the project's viability. Once a project starts, we carry out further due diligence to find additional ways of reducing carbon. The early stages of a project are critical for making carbon reduction decisions, as illustrated in the chart below, sourced from the Royal Institute of British Architects (RIBA).

Carbon reduction potential on a project



Metrics and targets

Scope 1, 2, 3 and climate-related metrics

In 2023, we revalidated our science-based targets to align with a 1.5°C scenario and are committed to reducing Scope 1, Scope 2 and operational Scope 3 GHG emissions by 60% by 2030 and by 90% by 2045 from a 2019 base year. We are also committed to reducing our wider Scope 3 emissions by 42% by 2030 and by 60% by 2045 from a 2020 base year. Our goal to achieve net zero carbon emissions by 2045 is more stringent than our previous goal of net zero by 2030. This is because we have realigned our science-based carbon reduction targets to a 1.5°C scenario (previously a 'well below 2°C' scenario) and our new 2045 carbon reduction targets include just 10% offsetting while our previous 2030 targets included 40% offsetting. We are still on track to meet our 2030 targets to reduce Scope 1, Scope 2 and operational Scope 3 emissions by 60%. We have also extended our targets to include wider Scope 3 emissions, which means they now cover the entire span of our value chain, including the embodied carbon in our materials and operational emissions expected over the lifespan of our projects after handover to clients. This reflects the ambition of our responsible business strategy and the role we play in helping our clients live more sustainably. We saw a slight increase in our 2023 emissions (see page 93). Page 31 provides information on the main reasons for the increase and how we will mitigate these in 2024.

Climate reporting continued
TCFD

We measure and manage a wide range of metrics to assess how well we are doing to minimise our carbon footprint, enhance the value of the buildings we construct and develop, and capitalise on climate opportunities. We continually review our metrics to ensure that the data we measure aligns with our strategy and is providing the information the business and our stakeholders need to effectively monitor our performance. As the availability of industry data improves, we have been working to increase the amount of activity data used in the modelling of our wider Scope 3 emissions, including estimates of GHG emissions from the procurement of goods and services, and emissions over the lifetime of the infrastructure we build. We will be updating the data modelling in 2024, and the baseline data used to benchmark performance against our science-based targets. This is in accordance with GHG Protocol accounting guidelines and to ensure consistency of data and assumptions across different time periods.

Further information on how we will address data challenges associated with our wider Scope 3 emissions can be found in our SECR section on page 92. As our transition plan continues to evolve and we work to align with ISSB S2, we will reconsider the operational and financial metrics we disclose. Our GHG reporting has been independently assured since 2010, adheres to the GHG Protocol methodology and encompasses all divisions. For more information on these and our other climate-related metrics and historical performance, see our 2023 responsible business data sheet on our website (Investors/Reports and publications section).

Climate-related metrics

Risks	Metric	2023	2022	2021
Political and regulatory	Scope 1, Scope 2 and operational Scope 3 tonnes CO_2e	See page 93		
	Internal carbon charge (£/tonne CO_2e)	**£70**	£50	£35
Reputational	% reduction of Scope 1, Scope 2 and operational Scope 3 emissions since 2019 base year (see page 30 for 2019 baseline figures)	**39%**	40%	37%
Market and technology	% of hybrid or electric vehicles in Group fleet	**64%**	53%	42%
Opportunities	**Metric**	**2023**	**2022**	**2021**
Reputational	Number of products achieving BREEAM/LEED/CEEQUAL/SKA and other industry-relevant sustainability ratings	**161**	108	99
Market and technology	Number of projects using CarboniCa	**280**	142	41
Resource efficiency	% of electricity purchased from renewable sources	**70%**	65%	72%
	% of construction waste diverted from landfill	**94%**	96%	97%
Resilience	Subcontractors (by spend) with accredited science-based targets	**£0**	£0	£0
	Subcontractors (by spend) requested to report their own carbon emissions (see page 39 for more information)	**£224m**	£649m	£589m

Independently validated targets

Accountability to our stakeholders is important to us and we aim to be as transparent as possible in reporting our progress against our targets. In 2019, we were the first in our sector to pursue and get our Scope 1, Scope 2 and operational Scope 3 targets validated by the SBTi against a well below 2°C scenario. In 2022, we resubmitted our targets to align to a 1.5°C scenario and to include all categories of Scope 3 and received revalidation in March 2023.

Future steps

We understand that appropriately addressing climate-related risks and opportunities and realising the full value of the TCFD recommendations requires ongoing work. In our 2024 report, we aim to enhance our disclosures by:

- completing the recalculation of 2023 wider Scope 3 emissions and realignment of baseline figures to reflect improvements in methodology and more accurate data generated through CarboniCa;
- continuing to progress quantitative scenario analysis of our climate-related risks and opportunities, including an overlay of the risks and improving our data-gathering capabilities;
- giving further consideration to and aligning with ISSB S2; and
- integrating our climate disclosures with other environmental considerations, specifically biodiversity.

Streamlined Energy and Carbon Reporting (SECR)

As part of our commitment to the Paris Agreement, our science-based targets were revalidated in 2023 by the Science Based Targets initiative (SBTi) to align to a 1.5°C trajectory. We are committed to reducing our Scope 1 and 2 and operational Scope 3 GHG emissions by 60% by 2030 and 90% by 2045. We have introduced new targets to reduce our wider Scope 3 emissions by 42% by 2030 and by 60% by 2045.

This report has been prepared in accordance with the requirements of Toitū's accredited organisational GHG programme: Toitū 'carbonreduce'. This programme is based on and fully incorporates the Greenhouse Gas Protocol's Corporate Accounting and Reporting Standard (2015) and ISO 14064–1:2018 Specification with Guidance at the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals. Where relevant, the inventory is aligned with industry or sector best practice for emissions measurement and reporting. In addition, GHG emissions are externally verified by Achilles, a global data validation company that provides assurance services for GHG emissions data. Our Group GHG emissions have been validated on an annual basis for more than 10 years as part of our responsible business commitments.

Emissions reported below correspond with our financial year and include all areas for which we have operational control in the UK and Europe[1], excluding joint ventures. The materiality threshold has been set at 5%[2] 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 2023 UK and global emissions was 86,990,991kWh (2022: 49,729,963.2kWh). Our UK operations consisted of 86,862,860kWh and our offshore emissions were 128,131 kWh.

1 BakerHicks' emissions data from 2022 onwards include its DACH operations.

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

Having enhanced our net zero targets in 2023, we are currently recalculating our 2023 wider Scope 3 emissions. These emissions include indirect emissions upstream and downstream of the Group, such as embodied carbon in materials or the estimated carbon emitted from operating the buildings for 60 years following handover to the client. (More detail on the categories of our wider Scope 3 emissions can be found in the Appendix on page 230.) We are also recalculating our 2020 wider Scope 3 emissions to provide a baseline for year-on-year comparisons.

The complexity of our value chain has meant that most of our wider Scope 3 emissions calculations have been based on annual procurement spending on materials and applied estimated emission factors. Our assumptions and estimations have been conservative in nature, based on best practice, and accepted as part of our science-based target validation process. However, our use of CarboniCa over the past few years has resulted in improvements in methodology and data, which will enable us to generate more robust and quality data in this complex area. In addition, our divisions have been actively working towards improving their Scope 3 accounting practices. In 2023, Fit Out undertook an exercise to calculate its 2022 total Scope 3 figures (see case study on page 39 for methodology used) and submitted its work for external verification. Construction will be undertaking a similar process in early 2024.

From 2024, we will include wider Scope 3 figures in our annual report. We recognise that this is an important step in providing stakeholders with additional clarity on the emissions generated across our entire value chain.

Climate reporting continued
SECR

GHG emissions[1] (tonnes CO_2e)	2023	2022	2019 baseline
Scope 1 – operation of facilities	**8,733**	9,528	18,124
Scope 2 – indirect emissions (purchased energy)	**2,691**	2,069	2,779
Total Scope 1 and Scope 2 emissions	**11,424**	11,597	20,903
Operational Scope 3 – other indirect emissions (related activities)	**5,250**	4,814	6,339

1 See Appendix on page 230 for definitions of scopes of carbon emissions.

Carbon intensity (based on £ revenue)	2023	2022	2019 baseline
Total Scope 1 and Scope 2 emissions (tonnes CO_2e)	**11,424**	11,597	20,903
Total Scope 1, Scope 2 and operational Scope 3 emissions (tonnes CO_2e)	**16,674**	16,411	27,242
Revenue	**£4,117.7m**	£3,612.2m	£3,071.3m
Carbon intensity for Scope 1 and Scope 2 emissions	**2.8**	3.2	6.8
Carbon intensity for total emissions	**4.0**	4.5	8.9

The UK government published its final ESOS (Energy Savings Opportunity Scheme) guidance for Phase 3 in early December 2023 and we are preparing to submit our third report under ESOS in early 2024. During the year, we undertook audits across four project sites, two offices and our vehicle fleet as part of our assessment. More information on the findings and recommendations of ESOS will be disclosed in our next annual report.

See page 34 for information on how our emissions increased by 1.6% in 2023, and page 31 for how we will be addressing this in 2024.

Non-financial and sustainability information statement

We aim to comply with the non-financial and sustainability reporting regulations contained in sections 414CA and 414CB of the Companies Act 2006. Our divisions communicate Group and divisional policies to their employees and supply chains. Our due diligence with regard to 'environmental matters', 'employees' and 'social matters' is driven by our Total Commitments, which are a strategic priority for the Group (see page 12).

	Policies	Due diligence, impacts and principal risks
Environmental matters	▪ For our climate-related financial disclosures, see pages 80 to 91. ▪ Code of Conduct and Supplier Code of Conduct, published on our website: commit to caring for the environment. ▪ Sustainable procurement policy: commits to being socially and environmentally conscientious in our procurement. ▪ Supplemental timber policy: requires procurement from sustainable sources. ▪ Sustainable water policy: commits to building to the highest standards as those detailed in the RIBA Climate Challenge 2030, on water use; retrofitting water-efficient kit; avoiding procuring materials or equipment that require intensive water use in their manufacture, installation or use; procuring water-efficient products; incorporating SuDS (sustainable drainage systems); and advising on saving water.	Due diligence, pages 30 to 36. Impacts, pages 30 to 36 and page 93. Principal risks, page 77.
Employees	▪ Code of Conduct: commits to conducting business in an open and ethical way in line with our Core Values and Total Commitments. ▪ Group health, safety and wellbeing management policy framework: incorporates the Group occupational health and safety policy which commits to providing a safe and healthy working environment for our employees and others involved in or affected by our works. ▪ Divisional occupational health and safety policies: cover all employees and extend to our subcontractors and suppliers working on our projects.	Due diligence, pages 17, 18, 22 to 29, 72 and 73, 113, 116, 120 to 121, 133. Impacts, pages 17, 22 to 29, 116. Principal risks, pages 72 and 73.
Social matters	▪ We are committed to providing a better built environment for all, and our services include urban regeneration, social housing and critical infrastructure. A large proportion of our work is for the public sector and therefore falls under the Public Services (Social Value) Act 2012. ▪ Sustainable procurement policy: commits to being socially and environmentally conscientious in our procurement.	Due diligence, pages 41 to 44. Impacts, pages 41 to 44. While social matters are not regarded as a principal risk, each division carries out regular risk assessments to identify any areas of its business and markets that may be susceptible to risk, and embeds appropriate procedures in its day-to-day operations.

Non-financial and sustainability information statement continued

	Policies	Due diligence, impacts and principal risks
Human rights	▪ Human rights policy (see page 24). ▪ Code of Conduct and Supplier Code of Conduct (see pages 24 and 25). ▪ Modern slavery policy (see pages 24 and 25). ▪ Modern slavery statement, published on our website. ▪ Whistleblowing policy and procedure (see page 116).	Due diligence, pages 24 and 25. Impacts, pages 24 and 25. See also our modern slavery statement on our website. Human rights breaches are not considered a principal risk; however, information on how we manage this risk can be found on page 25.
Anti-corruption and anti-bribery	▪ Code of Conduct and Supplier Code of Conduct: state that we will not tolerate any form of bribery or corruption. ▪ Bribery Act guidance note: provides guidance on the Bribery Act 2010 and how it is relevant to the Group. ▪ Group-wide dealing policy: clarifies to all employees regulations relating to the misuse of inside information. ▪ Dealing code: states directors' and others' obligations to comply with market abuse regulation. ▪ Competition law compliance policy: clarifies requirements under the Competition Act 1998 and Enterprise Act 2002. Each division provides its employees with guidelines tailored to the division's activities.	Due diligence, pages 111, 116, 129 and 130. Impacts, pages 116 and 130. There was no evidence of any systemic bribery or corrupt activity in 2023. We do not regard corruption and bribery as a principal risk to the Group.

Copies of our policies are available on our website or can be obtained from the Group's company secretary on request. Our business model is set out on pages 10 and 11 and our non-financial KPIs on pages 14 and 15.

Non-financial data collection

We have been reviewing the means and methodologies used to collect and report our non-financial data across our five Total Commitments (see page 20). Using data visualisation software, we have developed an online platform through which all divisions' metrics are collated, verified and regularly monitored. This way we can ensure the reliability, accountability and transparency of our data.

The sources of our non-financial KPI data, as reported on pages 14 and 15, are listed below:

- Lost time incident rate: calculated in accordance with industry standards and reviewed monthly by divisional teams, the GMT and the Board.
- Training days: recorded directly from each division's automated HR system and verified by appointed employees.
- Carbon emissions: all data is independently verified (see pages 92 and 93). See pages 31 and 92 for how we are addressing the collection of wider Scope 3 emissions data.
- Payment of supply chain: we report our payment to suppliers in accordance with the Prompt Payment Code, and the data is checked by our Group finance team.
- Social value: see page 44 for how we measure social value on our projects in accordance with industry methodologies.

Going concern and viability statement

Going concern

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

As at 31 December 2023, the Group had net cash of £460.7m and committed banking facilities of £180m which are in place for more than one year. The directors have reviewed the Group's forecasts and projections, which show that we will have a sufficient level of headroom within facility limits and covenants over the period of assessment which the directors have defined as the date of approval of the 31 December 2023 financial statements through to 31 March 2025. After making enquiries, including the review of sensitivities for plausible downside scenarios to the forecasts, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to prepare the annual financial statements on the going concern basis. See page 185 for the going concern basis of preparation in the consolidated financial statements.

Viability

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

This assessment took account of the Group's current position and the potential financial and reputational impact of the principal risks (as set out on pages 69 to 77) on the Group's ability to deliver the Group's business plan. This assessment describes and tests the significant solvency and liquidity risks involved in delivering the strategic objectives within our business model.

The assessment has been made using a period of three years commencing on 1 January 2024, 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 less. There is inherently less visibility over the expected workload beyond three years, and increased uncertainty around the forecast 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 2023, of which £15m is committed until June 2026 and £165m is committed until October 2026. For the purposes of testing viability, it is assumed that equivalent facilities are available past these maturities.

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

The table on page 97 gives an overview of the scenarios modelled and the mapping to the Group's relevant principal risks.

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

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

In addition, the Board has considered a range of potential mitigating actions that may be available if this worst-case collection of scenarios arises. These primarily include a reduction in investment in working capital and a reduction in the dividend.

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

Based on the results of its review and analysis, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of its assessment until 31 December 2026.

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

Going concern and viability statement continued

Scenario	Principal risk mapping
Reduced revenue and margins in the construction businesses The cash performance of the construction businesses is correlated to the levels of revenue and margin achieved by each division. We have modelled a scenario of reduced revenue that could be caused by changes in UK economic conditions or the insolvency of a key client/partner. In addition to this, we have modelled reduced profit margins that may result from increased inflation, inefficiencies that could be a result of poor project selection, poor project delivery, resourcing issues, health and safety issues, and the impact of disruption that could be caused by cyber activity or climate change.	▪ Economic change and uncertainty ▪ Partner insolvency or adverse behavioural change ▪ Poor contract selectivity ▪ Poor project delivery ▪ Health and safety incident ▪ Talent retention and attraction ▪ Cyber activity/failure to invest in IT ▪ Climate change
Working capital deterioration in the construction businesses We have modelled a scenario including a deterioration of working capital in the construction businesses that could be caused by delays in receiving payments from customers and also having to pay suppliers earlier.	▪ Mismanagement of working capital and investments ▪ Partner insolvency or adverse behavioural change
Reduction in open market sales values and sales pace in Partnership Housing We have modelled a scenario where there is a further reduction in the open market housing sales values and a slowdown in the sales pace caused by changes and uncertainty in the UK economic conditions, exposure to the UK residential market or poor project delivery.	▪ Economic change and uncertainty ▪ Exposure to UK residential market ▪ Poor project delivery
Project delays or viability concerns, and cost increases in Urban Regeneration We have modelled a scenario where there were project delays or cancellations in respect of Urban Regeneration and also reduced margins. This scenario could be the result of changes and uncertainty in the UK economic conditions, including changes in the UK residential market, and also inefficiencies that could be a result of poor project delivery, resourcing issues, health and safety issues, or the impact of disruption that could be caused by cyber activity or climate change.	▪ Economic change and uncertainty ▪ Exposure to UK residential market ▪ Partner insolvency or adverse behavioural change ▪ Poor project delivery ▪ Health and safety incident ▪ Talent retention and attraction ▪ Cyber activity/failure to invest in IT ▪ Climate change
Building safety expenses We have modelled a scenario where we incur higher than expected expenses in respect to our obligations under regulations relating to building safety, but these costs are not fully recovered through contractual remedies.	▪ Poor project delivery ▪ Health and safety incident ▪ Mismanagement of working capital and investments
Severe downside case We have modelled a scenario where all of the scenarios above combined at the same time, to represent a severe downside scenario.	▪ All of the above

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

John Morgan
Chief Executive
21 February 2024

Governance

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As a UK premium-listed company, we have adopted a governance structure based on the UK Corporate Governance Code.

Throughout the year, the Company has applied all the Principles, and complied with all Provisions of the 2018 UK Corporate Governance Code (the 'Code'), which is available on the Financial Reporting Council's website at frc.org.uk. In line with the Companies Act 2006 Regulations, further information on how the directors have performed their duties under section 172 of the Companies Act 2006 is contained in the strategic report.

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Chair's statement

Maintaining our focus on the Group's strategic objectives

The quick read...

The Board has:

- closely reviewed the Group's performance against our responsible business strategy
- appointed a new non-executive director
- announced the appointment of a new finance director
- participated in an externally facilitated evaluation of the Board and its committees
- consulted with shareholders on changes to our remuneration policy

We continue our positive journey of creating value as a business for all our stakeholders."

Michael Findlay
Chair

I am pleased to present the corporate governance report for the year ended 31 December 2023. This report, together with the reports of our committees, provides detail on the Board' s activities during the year and how the UK Corporate Governance Code has been applied.

Throughout 2023, the Board has maintained its focus on our strategy and ensuring that we continue on our positive journey of creating value as a business for all our stakeholders. Due to the increased uncertainty in the macroeconomic environment at the time of writing last year's report, the Board committed to undertake rolling reviews of risk and risk appetite. While the situation has generally eased, we will keep monitoring market conditions and ensure that we maintain our strong balance sheet and disciplined contract selectivity. This will position us well to maximise opportunities for long-term growth (see pages 114 and 115).

Our overall performance during the year was strong. A record performance in the first quarter led to the Board making an upgrade in June to its expectations for the full year. While most of our divisions performed well throughout the year despite general market conditions, our Property Services division had a challenging year. Steps were taken to implement a remediation programme to stabilise the business, which the Board is closely monitoring (see page 58).

Our Group has a well-established governance and control framework which supports our purpose, values and long-term strategy. The Board has continued to support and challenge management and oversee the Group's adherence to our governance and control policies. These activities are a critical factor in ensuring sustainable success in our operations.

On behalf of the Board, I would like to thank all our colleagues for their continued hard work and dedication throughout the year which has contributed to these good results.

An overview of how the Board spent its year is provided on page 102.

Board composition and diversity

Tracey Killen stepped down from the Board on 31 December having served for six years as a non-executive director. I would like to thank Tracey for the valuable role she has played in the Group's success, both as a director and as chair of the remuneration committee. In Tracey's place, Jen Tippin became chair of the remuneration committee on 7 December 2023, and with effect from 1 January 2024, I became a member of the responsible business committee. In addition, as announced on 12 December, after more than 10 years in the role of finance director and having seen the business through a period of significant growth, Steve Crummett is retiring from the Board in 2024.

As part of our long-term succession planning, we appointed executive search agency Korn Ferry to help find a replacement non-executive director with the expertise required to chair the audit committee, as Malcolm Cooper's final three-year term ends in November 2024. We also appointed Korn Ferry to help with the search for a replacement finance director with the skills necessary to lead the Group's finance strategy. Our objective in each case was to identify the candidate with the best skills and experience for the respective role, while proactively considering gender and ethnic diversity in line with our Board diversity policy.

On 1 January 2024, Sharon Fennessy joined the Board as non-executive director. Sharon became a member of each of the audit and nomination committees and will take over as chair of the audit committee after our AGM in May. Sharon is a highly experienced chartered accountant. Her extensive financial experience and strategic and commercial skills will broaden the Board's expertise and add knowledge and insight to its discussions.

Steve Crummett will be succeeded by Kelly Gangotra, who will join the Board in the third quarter this year. Kelly has a strong track record of leading finance functions at a number of companies and we will be pleased to welcome her to the Group. Further information on Sharon and Kelly's recruitment process is described on page 119 of the nomination committee report.

The Board has continued to drive improvement in diversity within all our businesses. The divisions conduct a range of activities to increase diversity in its broadest sense, including initiatives to address the gender pay gap and working with various industry bodies to reach a wider audience for potential roles within the Group. Further information on the divisions' activities is set out on pages 27 to 29.

A responsible business

Our shareholders, clients and employees expect the Board to maintain a leadership approach to sustainability and tackling climate change, and these issues have remained at the forefront of the Board's reviews and decisions.

We were the first UK construction company to have our science-based targets revalidated by the SBTi and in 2023, we reaffirmed our commitment to net zero by realigning our targets to a 1.5°C scenario. We retained both our AAA ESG rating from MSCI and our A rating from CDP, demonstrating our continued leadership in sustainability.

The results of the materiality survey we undertook in early 2023 confirmed that the Group is focusing on the issues that matter most to our stakeholders, and that our Total Commitments remain relevant. More information can be found on pages 20 to 44 of the strategic report.

Board evaluation

The 2023 review was externally facilitated by Longwater Partners in conjunction with CBJ Business Psychologists. It was the Board's first external review since the introduction of the 2018 Code, and, in line with the Code, the Board will undertake its next external review in 2026. It was concluded that the Board and each of its committees were well run and effective with strong collaboration between the directors. It was agreed that the Board would continue to focus on Board training, upskilling and succession; equality, diversity and inclusion across the Group; delivering on our Total Commitments; and that Partnership Housing continues to progress against its strategic plan. Further detail on the results and agreed areas of focus are described on pages 122 and 123.

Engagement with shareholders

At the beginning of 2023, the chair of the audit committee and I reached out to our major shareholders, inviting them to discuss governance, performance against strategy or any other matters of significance to them. I received a request for a meeting from one of our major shareholders and met with two of their representatives in early April. In addition, both John and Steve kept the Board fully apprised of feedback they received during their regular engagement activities with shareholders.

At last year's AGM, the directors' remuneration policy was supported by a large majority of shareholders. This followed extensive communication with major shareholders on proposed changes to the policy ahead of the meeting. However, of the shareholders who cast their vote, 22% voted against the remuneration policy. Following the AGM, the chair of the remuneration committee reached out again to further understand shareholders' views and concerns, particularly those who had either abstained or voted against the policy (see page 138 for further information). Our response to their feedback was published via a Regulatory Information Service on 4 September 2023. The Company continues to keep the remuneration policy under review and welcomes ongoing dialogue with shareholders and proxy advisers. More information on how the policy has been implemented and the work of the remuneration committee is given on pages 135 to 162.

AGM

Our AGM will be held on 2 May 2024 (see page 163 and the AGM circular for details). Our internal evaluation of individual directors' effectiveness took into consideration the time they need to commit to the Group and to any external roles. We are satisfied that each director offering themselves for election or re-election, in accordance with the Code, continues to make an effective contribution (see page 123).

Michael Findlay
Chair
21 February 2024

Board at a glance

A committed leadership team delivering value for our stakeholders

Board meeting agendas combine regular reviews of performance against the Group's values and strategic priorities with 'deep dives' into specialised topics and presentations from divisional teams. In addition, internal and external experts are invited to lead detailed discussions into our progress in particular areas such as health and safety, environmental and social value, and cyber security. Internal experts include our head of information security, director of sustainability and procurement, head of audit and assurance, and Group commercial director, while external experts include our auditors and remuneration advisers.

An overview of how the Board spent the year

Meetings are planned throughout the year to ensure the Board has sufficient time to discharge its responsibilities effectively.

Standing items addressed throughout the year

- Health and safety
- Executive reports covering implementation of strategy as well as commercial and financial performance
- Financial structure and position
- Divisional performance including KPIs
- Commercial, governance and verbal updates from the company secretary and chairs of each Board committee

February 2023

- Results for the year ended 31 December 2022
- Final dividend for the year ended 31 December 2022
- Divisional payment practice review
- Review of the developer remediation contract in relation to fire safety
- Board approval of terms of reference of audit, nomination and remuneration committees

May 2023

- Approval of extension to banking facility
- Review of half-year forecasts and approval of trading update announcement
- Modern slavery statement approval
- Review of AGM investor feedback
- 2023 AGM

June 2023

- Approval of interim announcement of 2023 full-year results
- Purpose, strategy and culture review
- Board succession planning
- Review of insurance renewal strategy
- Information security update and management of cyber risks
- Divisional meeting with Infrastructure

August 2023

- Results for the half year ended 31 December 2023
- 2023 interim dividend
- Whistleblowing review
- Responsible business performance update
- Board succession planning update

October 2023

- Group strategy review
- Detailed update on Property Services
- Risk appetite review
- Capital allocation review
- Board succession planning update

December 2023

- Group budget approval
- IT strategy, risk and security update
- Board and committee evaluation review
- Whistleblowing review and review of employee engagement activities
- Divisional meeting with Fit Out

Board at a glance continued

Board diversity as at 31 December 2023

More information on Board and senior leadership diversity can be found on pages 120 and 121.

Role

Chair	1
Executive	2
Non-executive	5

Chair and non-executive director tenure

0–3 years	2
4–7 years	3
8–9 years	1

Gender diversity

Female	3
Male	5

Ethnic diversity

White	7
Ethnically diverse	1

Board attendance

	Board	Audit	Responsible business	Nomination	Remuneration
Total in 2023	**9**	**3**	**3**	**4**	**3**
Michael Findlay[1]	9	3[2]	1[2]	4	3[2]
John Morgan	9		3[2]	4[2]	2[2]
Steve Crummett	9	3[2]	1[2]	3[2]	
Malcolm Cooper	9	3	3	3[4]	
Tracey Killen[5]	9		3	3[4]	3
David Lowden	9	3		4	3
Jen Tippin	8[3]	3	1[2]	4	3
Kathy Quashie	9			4	3

1 Michael Findlay attended all Board and nomination committee meetings during the year and was also invited to attend the audit, responsible business and remuneration committee meetings.
2 Attended by invitation.
3 Jen Tippin was unable to attend the Board call in June 2023 in relation to the trading update due to alternative commitments in her executive responsibilities that could not be changed. When directors are unable to attend meetings, they receive the papers and have the opportunity to provide their feedback in advance.
4 Malcolm Cooper and Tracey Killen were unable to attend the nomination committee call in November 2023 due to prior commitments that could not be changed.
5 Tracey Killen stepped down from the Board on 31 December 2023.

The Board's experience as at 31 December 2023

8
Industry knowledge/ experience

8
Strategy development

6
Financial expertise

4
Responsible business (ESG)

5
Technology/ data management

7
Risk management

2
Complex supply chain management

Board of directors

An experienced Board, delivering our purpose

Throughout 2023, and as at the date of this report, the Board consists of the chair, two executive directors and five non-executive directors, each bringing a range of skills, experience, knowledge and background to Board discussions.

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

The non-executive directors are responsible for constructively challenging the executive directors and monitoring delivery of the Group's strategy within the risk and control framework set by the Board.

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.

Tracey Killen stepped down from the Board on 31 December 2023 and Sharon Fennessy joined the Board on 1 January 2024.

Michael Findlay N RB

Chair

Appointed: October 2016
Independent on appointment: Yes
Skills and experience: Michael has spent his career in investment banking and advised the boards of many leading UK public companies on a wide range of strategic, finance and governance matters. He was previously co-head of investment banking for UK and Ireland at Bank of America and senior independent director at UK Mail Group PLC.
Contribution to long-term success: The Board benefits from Michael's extensive experience in business and corporate finance together with his expertise in property, risk management and communications. His contribution assists the Group in pursuing its strategy, maximising the value of the business, and delivering long-term, sustainable value for all our stakeholders. Michael's leadership of the Board encourages a collaborative approach and open debate by all Board members.
Current external roles: Michael is non-executive chair of London Stock Exchange plc, non-executive director and audit and risk committee chair of International Distributions Services plc, member of the FCA's (Financial Conduct Authority's) markets practitioner panel, and non-executive director of Jarrold & Sons Limited.

John Morgan

Chief Executive

Appointed: October 1994
Independent: No
Executive responsibilities: John leads the Group, developing and implementing the strategy and policies approved by the Board, embedding values and culture, and driving diversity and inclusion throughout the business. John also leads the GMT.
Skills and experience: John co-founded Morgan Lovell in 1977 which merged with William Sindall plc in 1994 to form Morgan Sindall Group plc. He instituted and champions the Group's decentralised business model that empowers the divisions to challenge the status quo and keep innovating and winning in their respective markets.
Contribution to long-term success: The Board benefits from John's in-depth knowledge and experience of both the construction and regeneration sectors. His significant leadership and people management skills continue to drive forward the Group's strategy to ensure quality of earnings and grow the business organically for the benefit of all our stakeholders. John is responsible for ensuring that career opportunities within the Group are accessible to people from a variety of backgrounds so that we can recruit the best people from a wide pool of talent.
Current external roles: John does not currently hold any external appointments.

Steve Crummett

Finance Director

Appointed: February 2013
Independent: No
Executive responsibilities: Steve leads the Group's financial strategy and has overall responsibility for corporate reporting, finance, treasury, taxation and IT. He contributes to the development and implementation of the strategy and policies approved by the Board. Steve is chair of the Group's risk committee.
Skills and experience: Steve is a chartered accountant and has wide-ranging financial, accounting and UK public company experience through prior executive, non-executive and senior finance roles with a number of listed companies.
Contribution to long-term success: The Board benefits from Steve's considerable experience in finance, audit, treasury, risk management and IT and security. His expertise has contributed towards the Group's financial resilience and strong balance sheet, which enables us to make the right decisions for the long term.
Current external roles: Steve does not currently hold any external appointments.

Board of directors continued

Malcolm Cooper A RB N

Non-executive Director

Appointed: November 2015
Independent: Yes

Skills and experience: Malcolm is a qualified accountant and treasurer. He has an extensive background in corporate finance and wide experience in infrastructure, property and construction. Malcolm's previous roles include managing director of National Grid Property, global tax and treasury director of National Grid, senior independent director and audit committee chair at CLS Holdings plc, president of the Association of Corporate Treasurers and member of the Financial Conduct Authority's Listing Authority Advisory Panel.

Contribution to long-term success: In his roles as chair of the responsible business and audit committees, the Board benefits from Malcolm's wide knowledge of government policy and direction, health and safety and the impacts of climate change as well as in finance, audit, treasury and risk management.

Current external roles: Malcolm is senior independent director and credit committee chair of MORhomes plc, non-executive director and audit and risk committee chair at Custodian Property Income REIT plc, non-executive director, remuneration committee chair and audit and risk committee chair at Southern Water Services Limited and non-executive director and audit and risk committee chair at Local Pensions Partnership Investments Ltd. He has also been reappointed as the deputy president of the Association of Corporate Treasurers.

Sharon Fennessy A N

Non-executive Director

Appointed: January 2024
Independent: Yes

Skills and experience: Sharon is a fellow of the Institute of Chartered Accountants. She has an extensive background in corporate finance, treasury and investor relations. Sharon's previous experience includes Diageo plc, where she was most recently group controller and prior to that head of investor relations, group treasurer and finance and strategy director for Western Europe. Before joining Diageo, Sharon held a number of senior finance leadership positions at Nortel Networks, in multiple locations across Europe and the US.

Contribution to long-term success: The Board benefits from Sharon's wide knowledge in finance, audit, and treasury as well as her strong strategic and commercial experience. Sharon will take over as chair of the audit committee in May 2024.

Current external roles: Sharon is currently appointed as a non-executive director and member of the remuneration committee at Gowan Group Limited and a non-executive member of the audit and risk committee at John Lewis Partnership plc.

David Lowden A N R

Senior Independent Director

Appointed: September 2018
Independent: Yes

Skills and experience: David is a highly experienced non-executive director and chair of UK-listed companies in several sectors. He has experience in both financial and general management through his prior executive roles of finance director and chief executive at Taylor Nelson Sofres plc, where he supported growth and profitability through the efficient design of business operations and appropriate use of systems and processes. David's public board experience includes prior roles as chair of Page Group plc, chair of Huntsworth plc, chair of the audit and risk committee at William Hill plc, and chair of the audit committee at Cable & Wireless Worldwide plc.

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

Current external roles: David is currently chair of the board of Diploma plc and chair at Capita plc having previously been the senior independent director.

Kathy Quashie N R

Non-executive Director

Appointed: June 2021
Independent: Yes

Skills and experience: Kathy has extensive strategic, commercial, sales and digital transformation experience developed through her career in the telecommunications and tech sectors. She was previously a non-executive director of the Enterprise Board of Transport for London Museum and, more recently, chief growth officer and executive committee member at Capita plc. Kathy has been a key advocate for building a diverse and inclusive culture. She was recognised in Empower Top Executive Role Model Lists 2021 to 2023 and recently featured in the Powerful Media list for 2023 as one of the top 25 senior executive level influencers in finance, law and tech.

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

Current external roles: Kathy is a DE&I champion, representing equality and inclusion in market forums. She is also a member of Chapter Zero.

Jen Tippin R A N

Non-executive Director

Appointed: March 2020
Independent: Yes

Skills and experience: Jen has extensive strategic and commercial experience developed through her career in financial services and in the engineering and airline sectors. She has wide experience in business leadership and transformation, human resources, efficiency, sourcing, supply chain management and property, together with a deep understanding of customer experience. Jen has sat on the boards of City University, Lloyds Bank Corporate Markets and Kent Community NHS Foundation Trust.

Contribution to long-term success: The Board benefits from Jen's strengths in consumer-facing markets, and her insights into IT, people and complex supply chain management are relevant to the Group's strategy to deliver long-term sustainable value to our stakeholders. Jen was appointed chair of the remuneration committee on 7 December 2023.

Current external roles: Jen is the group chief people and transformation officer for NatWest and sits on the NatWest Group and NatWest Holdings executive committees. She is also a non-executive director of HMRC and member of the boards of the Financial Services Skills Commission and City HR Association Limited.

Board committees

- A Audit committee
- N Nomination committee
- R Remuneration committee
- RB Responsible business committee
- Committee chair

Group management team

Supporting the executive directors

The GMT supports the executive directors in implementing the strategy and policies approved by the Board.

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

On 28 April 2023, Pat Boyle took over the role of managing director of Property Services following Alan Hayward's resignation. Phil Mayall was appointed managing director of Urban Regeneration in October 2023.

John Morgan

Chief Executive

See page 104 for biography

Steve Crummett

Finance Director

See page 104 for biography

Chris Booth

Managing Director, Fit Out

Role: Chris has overall responsibility for the Fit Out division, which includes the Overbury and Morgan Lovell brands. He is responsible for driving the strategy of excellence in operational delivery and exceptional customer experience in the division's office fit out, refurbishment, design and build, higher education and life sciences projects.
Skills and experience: Chris has over 35 years' experience in the fit out sector. He joined Overbury in 1994, progressing through divisional management to become managing director of Overbury's Major Projects team in 2003. Chris was appointed to the Fit Out divisional board as chief operating officer in 2010, before being appointed as overall managing director in 2013.

Pat Boyle

Managing Director, Construction and Property Services

Role: Pat leads the Construction division, where he is responsible for delivering sustainable growth, promoting a safe and inclusive culture and creating inspiring communities where we all live, work, learn and play. In addition, Pat heads up our Property Services division which provides responsive repairs and planned maintenance services to more than 200,000 homes and public buildings nationwide, for both the public and private sectors.
Skills and experience: Pat has over 30 years' experience in the construction industry. He joined the Group in 2014 from Lend Lease, where he was head of its public sector construction division. Prior to this, Pat held various wide-ranging senior-level roles within Laing O'Rourke, including regional director, group HR director and managing director of Select Plant Hire.

Steve Coleby

Managing Director, Partnership Housing

Role: Steve leads our Partnership Housing business, people and ventures. The division provides innovative residential construction and regeneration developments from decentralised regional offices across the UK. He ensures it places responsible business and trusting partnerships at the heart of all its decision-making.
Skills and experience: Steve joined the Group in 2018, bringing a wealth of knowledge and experience in construction. Previously, he spent 25 years at Laing O'Rourke, including as commercial director of its European hub, managing director of UK infrastructure, and managing director of its UK construction business. Steve holds a Royal Institution of Chartered Surveyors (RICS) fellowship.

Group management team continued

Martin Lubieniecki
Managing Director, Design

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

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

Phil Mayall
Managing Director, Urban Regeneration

Role: Phil was appointed on 2 October 2023 to lead the Urban Regeneration division. He is responsible for delivering a range of commercial and residential schemes with both public and private sector clients, bringing sustainable and transformational change to towns and cities across the UK. Phil is also director of The English Cities Fund, a national regeneration partnership between Urban Regeneration, Homes England and Legal & General. He is a trustee of the Standing Tall Foundation, a St Helens based charity that provides mental health and wellbeing support to the local community and veterans, and a member of the British Property Federation's Property Leaders Council.

Skills and experience: Phil joined the Group in 2006 and progressed through Urban Regeneration to become managing director for the North West region in 2019. Prior to this he spent five years working in the asset management and development teams at Northern Trust Company Limited, a private property company. Phil has nearly 30 years' experience in the property industry. He is a member of RICS, the British Property Federation and the British Council for Offices.

Andy Saul
Group Commercial Director

Role: Andy supports the divisions in developing and implementing effective commercial strategies at preconstruction stage and in key operational activities. He also offers advice and assistance, acting as a critical friend to the divisions throughout the life cycle of a project. Andy works closely with the responsible business committee and is a member of the risk committee and the Group protecting people forum where he oversees the implementation and monitoring of the Group's health, safety and wellbeing framework.

Skills and experience: Andy joined the Group in 2014 from Bullock Construction where he was managing director. 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.

Clare Sheridan
Company Secretary

Role: Clare is responsible for advising the Board on corporate governance matters and ensuring they receive timely and accurate information. In addition to her governance responsibilities, Clare manages the Group secretariat function, the insurance programme, long-term incentive schemes, pension arrangements, Group-wide employee benefits and Group reporting on our responsible business strategy and performance. She is a member of the Group's risk committee; director of the captive insurance company; and trustee of the pension scheme.

Skills and experience: Clare is a member of the Chartered Governance Institute UK & Ireland. She has been with the Group for more than 25 years, and was appointed as company secretary in 2014, having previously been deputy company secretary.

Simon Smith
Managing Director, Infrastructure

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

Skills and experience: Simon is a chartered quantity surveyor with 30 years' multi-sector experience. Having joined the Group in 2011, he was appointed as managing director of Infrastructure in 2017.

Directors' and corporate governance report

Governance framework

We have a framework in place that ensures there is supervision at appropriate levels of the organisation to drive performance and manage risks and opportunities.

The Board

The Board, assisted by its committees, is responsible for:

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

Role of the chair and senior independent director

The chair is responsible for the overall effectiveness of the Board and for promoting a culture of openness and debate at meetings which support well-informed and transparent decision-making through constructive dialogue. The chair is supported by the senior independent director who is available to the other directors and shareholders where necessary. 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.

Board committees

The Board delegates certain matters to its committees. The Board and 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, internal controls and risk management systems, the work, findings and effectiveness of the internal and external audit, and appointment of the external auditor.
See page 124

Nomination committee
Oversees Board and committee composition, Board evaluation, and succession planning, giving consideration to diversity, including development opportunities for our teams.
See page 117

Remuneration committee
Responsible for recommending overall remuneration policy and setting remuneration for our executive directors and members of the GMT.
See page 135

Responsible business committee
Oversees the Group's responsible business strategy, targets and performance and monitors progress against our Total Commitments.
See page 132

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 Total Commitments.
See page 106

Divisions
Each division operates autonomously with its own management board that includes the Group chief executive and Group finance director.
See page 7

Risk committee
Meets twice a year to assist the Board and audit committee in monitoring risk management, including climate risk, and overseeing the internal control framework.
See page 66

Cross-divisional protecting people and HR forums, IT security steering group, climate action group, and supply chain and social value 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 GMT in ensuring that good governance is adopted at all levels of the Group.

Responsibilities of the divisional boards

Our governance framework supports our long-established philosophy of decentralisation. Our divisions are given autonomy to operate in the way that best serves their respective stakeholders and allows them to respond quickly and effectively to changes in their markets. We believe this approach remains fundamental to the divisions delivering their business strategies and contributing to the long-term success of the Group.

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

- matters reserved solely for the Board's decision-making and terms of reference of each of the Board's committees, which can be found on our website;
- a schedule of delegated authorities which covers procedures for key operational decisions;
- directors' duties under the Companies Act 2006 and other legislation, which are communicated via induction packs and e-learning modules; and
- a Code of Conduct for all of our employees on the Group's expected standards to prevent misconduct and breach of ethical practices (see pages 24 and 94).

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 48 to 65 for further information on each division's performance during the year.

The schedule of delegated authorities 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 sets its own detailed procedures with regard to day-to-day operational matters to ensure that decisions are taken at the right level. 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. There were no material contracts in 2023 that required referral to the Board, although each division required approval from the executive directors on certain contracts over thresholds as set out in the schedule.

The executive directors meet with the divisional management boards each month to review performance against their medium-term targets and strategic plans. In preparation for these meetings, the divisions prepare monthly board packs detailing performance against their KPIs and any issues pertaining to their stakeholders. In turn, the Board receives an executive summary of each divisional board pack as part of each set of Board meeting and interim papers. This ensures that the Board is kept fully apprised of each division's performance and any material issues arising.

Independence

On pages 104 and 105, the Board has set out which directors are considered independent in accordance with Provision 10 of the Code.

As at 31 December 2023, and as at the date of this report, 63% of our Board (excluding the chair) are considered independent. When our chair was appointed to the Board in October 2016, he was considered to be independent when assessed against the circumstances set out in Provision 10 of the Code.

The tenure of our non-executive directors is regularly reviewed as part of our succession planning (see page 118) to maintain independence and ensure regular refreshment of the Board.

External commitments and conflicts of interest

Prior to their appointment, new directors are asked to disclose any significant commitments they have, together with an indication of the time involved, so that the Board can assess whether they will be able to devote the time necessary to fulfil their role on the Board. On 23 November 2023, on the recommendation of the remuneration committee, the Board announced the appointment of Sharon Fennessy as a non-executive director. Further information on her appointment process is set out on page 119. Directors' current employment and external directorships are disclosed on pages 104 and 105.

After appointment, approval must be sought in order to accept an external appointment. In February 2023, the chair approved Malcolm Cooper's appointment to The Association of Corporate Treasurers, which was effective from May 2023. In June 2023, the chair approved Tracey Killen's appointment to the Board of Governors of Nuffield Health, which was effective from July 2023. In addition, the chair approved Jen Tippin's appointment to the board of City HR Association Limited with effect from December. In respect of these appointments, the chair considered potential conflicts and time commitment associated with the proposed additional appointments and noted that each director would be able to continue to meet their respective commitments to the Group.

The Board has an agreed approach for managing directors' conflicts of interest and ensuring its powers for authorising certain conflicts are operating effectively. Each director is required to notify the Board of any actual or potential situational or transactional conflicts and to update the Board of any changes. Situational conflicts can be authorised by the Board in accordance with the Companies Act 2006 and the Company's articles of association. A conflicts of interest register is maintained by the company secretary and reviewed annually by the Board.

Following its annual review in December of the commitments of the chair and directors, the Board was satisfied that they are able to allocate sufficient time to enable them to discharge their duties and responsibilities effectively and that the external commitments of the non-executive directors do not conflict with their duties as directors of the Company.

Directors' and corporate governance report continued

Board resources

With support from the company secretary, the Board ensures that it has an appropriate governance framework, policies and controls in place, and the chair ensures that the Board is provided with accurate and timely information in order to function effectively.

The agendas for scheduled Board and committee meetings are developed by the chair or respective committee chairs, chief executive and company secretary to ensure that the Board monitors the Group's progress against our strategic priorities, assesses the continued appropriateness of our business model, ensures that the resources integral to our business model are maintained, and satisfies itself that the needs of our stakeholders are being continuously monitored. The Board's key activities during the year are set out on page 102 with further detail of Board and committee actions and outcomes throughout this report.

Board and committee papers are distributed electronically in advance of each meeting to provide quick and secure access, and minutes are circulated to all directors after each meeting. Board agendas and papers are reviewed regularly to ensure they remain focused, aligned with our purpose and include, where relevant, stakeholder impacts for the directors to consider. Interim reports are circulated between the scheduled meetings.

If any director has any concerns about the operation of the Board or the management of the business, they are encouraged to raise them for discussion so that any unresolved concerns can be recorded in the minutes. No such concerns were raised during 2023.

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.

Board effectiveness

The Board provides effective leadership by setting a strategy to deliver our purpose, overseeing the Group's performance against our strategy while giving consideration to the impacts of our operations on our stakeholders, and ensuring our targets remain aligned with generating value for all our stakeholders.

The Board uses the support of its four committees to manage its time effectively. The chair of each committee informs the Board at the next Board meeting of their committee's key discussions, recommendations and decisions.

All Board and committee meetings are scheduled to be held in person unless this is prevented by factors outside our control. Additional ad hoc meetings are held as needed. In 2023, the Board held three additional meetings, primarily to discuss and review the Group's performance and approve stock market announcements. The Board also allocated time at the end of each of the six scheduled meetings during the year for the chair and other non-executive directors to meet without the executive directors present. No material issues were raised to be discussed at any of these meetings.

The nomination committee regularly reviews the Board's composition and the performance and contribution of individual directors, to confirm there is an appropriate balance of skills, experience and backgrounds for effective discussions and decision-making (see page 117). To support Board decision-making, senior managers, employees with specific specialisms, and external advisers are regularly invited to attend Board and committee meetings to present in-depth insights into key topics the Board has overall responsibility for, such as cyber security and environmental and social matters.

The nomination committee is also responsible for the annual evaluation process (see pages 122 and 123). As a result of this review, the committee is satisfied that the Board remains effective in delivering against our strategy and generating value for all our stakeholders in both the short and long term.

Our Board in action

Information technology and managing cyber risk

Our cyber risk management strategy is led by the Group finance director, supported by our information security team and a security steering group whose members include the Group's general counsel, head of internal audit and assurance, and IT director. The Board has overall responsibility for monitoring our cyber security, asset and data protection, and investment in IT to ensure that we have the technology and controls in place to meet the future needs of the business. The Board is assisted by the audit committee, as cyber security is a principal risk for the Group.

In 2023, the Board received briefings from our IT director and head of information security and compliance. The briefings focused on the challenges and opportunities posed by the rapid pace of technological development, IT-related business risks, and emerging technology. The purpose of these briefings was to keep the directors updated with the pace of technological change, the growing trends in cyber risk, and the measures taken, or planned to be taken, to mitigate the risk. These measures include: maintaining our accreditation to ISO 27001; conducting regular audits; penetration testing; enhancing our digital resilience and business continuity planning; and training employees in digital safety awareness, particularly in relation to phishing emails which are the biggest source of attack.

Following the briefings, the Board was satisfied that the Group is investing appropriate resources in IT and that progress is continuing to be made against our cyber security strategy. The Board will continue to have regular oversight of this key risk and will continue to receive regular updates and monitor our programme to improve cyber resilience.

The Group did not experience any major cyber incidents in the reporting period.

See page 77 for further detail on how we manage and mitigate cyber risk

Purpose, values, strategy and culture

The Board as a whole is responsible for establishing and promoting our purpose, values and strategy and ensuring they are aligned to our culture.

Our deep-rooted Core Values (see page 12) provide the framework for our Code of Conduct (see pages 24, 94 and 95) and drive the behaviours that support our purpose and strategic priorities. At the heart of our Core Values is our commitment to being decentralised, which gives our people and divisions autonomy to drive our strategy forward and create value for our stakeholders. Our culture of empowerment supports our business model by helping us attract and retain talented people who deliver to high standards and build and maintain long-term relationships with our clients, supply chain and other stakeholders.

Our executive directors, supported by the GMT, are responsible for communicating and embedding our purpose, Core Values and strategy, which they achieve using a range of platforms such as face-to-face training, conferences and e-learning programmes. Our Code of Conduct e-learning module is mandatory for employees and is also completed by all Board members so that they can see how our values and standards are being communicated across the Group.

The Board monitors our culture throughout the year. Annual strategy reviews with the divisions, informal meetings and employee conferences all provide opportunities to speak to employees in various different roles and levels of seniority. In addition, the Board is provided with reports on leading indicators of our culture which are discussed at Board meetings and analysed as to whether any interventions are needed.

Following a review of the Core Values by the executive directors and the Group management team, changes were approved to the Core Values in December to take effect from 1 January 2024 (see page 6 for further information on the changes).

The following tables provide an overview of the culture indicators monitored by the Board and its committees during 2023 against our previous Core Values which were in place throughout the year, together with links to further insights into how our culture is maintained. The Board will report on monitoring our culture against the revised Core Values in our 2024 annual report.

Having monitored the Group's culture during the year, the Board has agreed that:

- the Group has a strong, positive culture: employees feel empowered and are very engaged;
- appropriate actions have been taken where incidences have been identified of behaviours that are not in line with our values;
- the volume of activities being carried out by the divisions to support their employees, together with employees' willingness to engage, indicates that the divisions are promoting a positive and inclusive working environment where their teams can flourish;
- employees have the freedom to innovate so that we can perform better for our stakeholders, continue to develop our digital capabilities, and create sustainable success; and
- overall, behaviours are aligned with our values and our positive culture supports the resources we need to meet our strategic priorities and create value for our stakeholders.

We have a decentralised philosophy

Description

We empower our teams to deliver exceptional results for all our stakeholders.

Strategic priorities

Links to

- Audit committee report – internal audit review (pages 130 and 131) and risk management and internal controls (pages 128 and 129)
- Oversight of workplace policies and practices (page 116)
- Board decision-making (pages 114 and 115)

What the Board monitors

- Compliance with Company policies including our arrangements for employees and others working on our projects to raise concerns confidentially.
- The appropriateness of matters reserved for the Board and our delegated authorities schedule to ensure that the right approvals are in place and employees can make decisions appropriate to their experience and competencies.
- Divisional performance against strategy and KPIs.
- Our risk management process, including processes for identifying emerging risks.
- Our internal statement of risk appetite to ensure that our risk management is aligned.

Board/committee action in 2023

- Reviewed the work of the internal audit team to check whether they had uncovered any breaches of our Code of Conduct and related policies or if any behaviours were out of line with our culture.
- Reviewed our whistleblowing procedures and biannual reports of the number and nature of concerns raised during the period.
- Held regular meetings, deep dive sessions and strategy reviews with divisional management and senior employees to facilitate discussions and decision-making.
- Reviewed the divisional risk registers and ensured they aligned to the Group risk register and risk appetite.
- Carried out a robust assessment of the principal and emerging risks facing the Group, and reviewed the effectiveness of the Group's systems of internal controls and risk management prior to reviewing risk appetite.

Directors' and corporate governance report continued

The customer comes first

Description

We take a broad view of who our external customers are, including our clients and partners who commission us for projects, our supply chain, our shareholders and local communities where we work.

Strategic priorities

Links to

- Responsible business strategy and performance – materiality assessment (page 21) – Improving the environment (pages 30 to 36) – Working together with our supply chain (pages 37 to 40) – Enhancing communities (pages 41 to 44)
- Responsible business committee report (pages 132 to 134)
- Engagement with our stakeholders (pages 17 to 19 and page 116)

What the Board monitors

- The divisions engage with their customers, for example through satisfaction surveys and ratings such as Perfect Delivery statistics and customer experience feedback.
- Information about projects over a certain threshold and the performance of contracts, including any material issues arising which may impact the division or the Group as a whole.
- Materiality survey results with clients and other stakeholders on responsible business issues to ensure we remain focused on matters that are most important to our stakeholders.
- The divisions' engagement with their supply chains and communities and how they respond to feedback from these groups.
- Supply chain relationships and payment practices.
- The divisions' contribution to our Total Commitment KPIs and targets, which are focused on our stakeholders and the environment.
- Investor and analyst feedback of our results and proxy agency reports on the AGM voting recommendations.

Board/committee action in 2023

- Regularly reviewed divisional board summaries and discussed any matters of significance with the executive directors.
- Reviewed the results of the materiality survey undertaken in early 2023.
- Continued to monitor the resilience of the supply chain, particularly in relation to inflationary pressures and potential negative impacts.
- Reviewed payment practices reporting and divisional actions to maintain or improve on average payment days.
- Discussed and reviewed performance under our Total Commitments and discussed with management key focus areas for 2024, including continuing actions to combat climate change and enhance social value.
- Discussed feedback from investors and engaged with them to understand further any concerns raised.

Consistent achievement is key to our future

Description

Ensuring we get things right first time is a necessity and not an option.

Strategic priorities

Links to

- Strategic report operating review (pages 48 to 65)
- Audit committee report (pages 124 to 131)
- Board decision-making (pages 114 and 115)
- Responsible business committee report (pages 132 to 134)

What the Board monitors

- Financial performance of the Group and each division against our KPIs.
- Perfect Delivery and other success measures such as customer satisfaction surveys and net promoter scores.
- External ratings for our ESG performance.
- Balance sheet strength and levels of average daily net cash.
- The executive directors monitor divisional performance on a monthly basis at divisional board meetings and Group management team meetings, and provide regular updates to the Board.

Board/committee action in 2023

- Continually reviewed Group and divisional performance against our strategic priorities and medium-term targets to ensure quality of earnings and the ongoing ability to win and execute long-term workstreams.
- Conducted an in-depth review of strategic plans to ensure each division had the resources in place to meet its objectives and that opportunities and risks were being appropriately addressed.
- Reviewed our responsible business strategy to ensure environmental and social risks and opportunities are being addressed and that our reporting meets increasing regulatory requirements.
- Reviewed and approved the going concern and long-term viability statements.
- Approved full-year and half-year results announcements, and final and interim dividend payments, giving consideration to our capital allocation framework and formal dividend policy.

Talented people are key to our success

Description

We recruit, develop and retain those who can contribute most, both today and in the future. We ensure we have an attractive and inclusive culture and healthy working environment, and reward employees fairly, respect their rights and invest in developing their talent.

Strategic priorities

Links to

- Engagement with our stakeholders (pages 17 to 19 and page 116)
- Responsible business strategy – protecting people (pages 22 to 25 – developing people (pages 26 to 29)
- Nomination committee report (pages 117 to 123)
- Responsible business committee report (pages 132 to 134)
- Directors' remuneration report (page 137)

What the Board monitors

- Health and safety policies, practices and performance statistics.
- Voluntary staff turnover.
- Number of apprentices and new graduates.
- Average training days per employee.
- E-learning responses.
- Absence days due to sickness per person per year.
- Succession planning and talent pipelines.
- Results from employee engagement surveys and resulting actions taken.
- Diversity of our employees, including gender pay gap information.
- The approach and progress of management and the divisions to identify areas where there is any risk of human trafficking and modern slavery in our business.

Board/committee action in 2023

- Regularly reviewed health and safety performance: a priority for the Board and responsible business committee.
- Received an update on ongoing mental health awareness and wellbeing activities being carried out across the divisions.
- Reviewed the feedback received by directors from their engagement with employees during the year. The Board also reviewed each division's key engagement and inclusion activities and response to employee feedback.
- Reviewed and approved our 2022 gender pay gap report, for publication on our website.
- Reviewed Group succession planning, including reports on how the divisions are managing employee development and addressing diversity and inclusion.
- Approved our modern slavery statement for publication on our website.
- Considered wider pay and benefits across the Group to ensure it aligns with strategy and is appropriate to attract and retain the right talent.

We must challenge the status quo

Description

There is always a better way of doing things. We need to keep innovating to find new and better ways of working and to deliver on our Total Commitments.

Strategic priorities

Links to

- Responsible business strategy (pages 20 to 44)
- Responsible business committee report (pages 132 to 134)

What the Board monitors

- Investment in responsible business activities and the initiatives being trialled and adopted across the divisions to support delivery on our Total Commitments.
- Initiatives to reduce our carbon emissions and to support our supply chain to address climate change.
- Investment in responsible UK-based carbon offsetting projects and projects to promote biodiversity.
- Delivery of social value initiatives to the communities where we work.
- Investment in the use of technology across the Group, including improvements being made to existing systems as well as the identification of emerging technology that is relevant to our sector.

Board/committee action in 2023

- Monitored our progress in the year against our responsible business strategy and examined our performance and action plans for achieving our targets.
- Reviewed updates from the IT team on the divisions' use of technology to improve efficiency and develop new ways of working. For example, the development of technology assists in:
  - the early identification and remediation of health and safety issues;
  - better planning, design and management of projects; and
  - combating climate change.

Directors' and corporate governance report continued

Board decision-making

The Board's key activities during 2023 are set out on page 102. The Board ensures we have the necessary resources in place to implement our strategic priorities and that we measure our performance against them. The Board has also established a framework of controls for risk management which enables risks to be assessed and managed (see pages 128 and 129). The Group's risk committee manages risk and establishes and monitors the controls in place (see page 66). The audit committee supports the Board in its oversight of risk and internal controls and their effectiveness to enable the Board to set the Group risk appetite (see pages 128 to 131).

The following tables give an overview of the Board's principal decisions during the year. In line with our governance framework and decentralised approach, the Board normally makes a limited number of decisions that are material to the Group as a whole. To ensure its decision-making is robust, the Board will consider the Group's purpose, strategic priorities and long-term success, recognising that, while it seeks to balance the requirements of our different stakeholders, each decision will not necessarily result in a positive outcome for every stakeholder group.

Strategy review	
Factors considered	The Group's success depends on maintaining relationships with all our key stakeholders and ensuring we keep pace with changes in our target markets. In approving strategy, the Board recognises its duties and responsibilities to our shareholders and other key stakeholders and ensures that their views and priorities are considered.
Action taken	▪ Comprehensively reviewed progress against strategy, tracking performance against agreed KPIs. ▪ Reviewed divisional medium-term targets including each division's contribution to the overall Group strategy and long-term strategic plan. ▪ Monitored market trends and the macroeconomic environment, referring to comparative data and client insight. ▪ Attended presentations from each divisional managing director on their strategic plan including meetings with employees and visits to some of their projects. ▪ Reviewed each division's contribution to the Total Commitments and monitored the Group's progress towards our responsible business strategy, including our performance against climate targets and net zero plans. ▪ Reviewed the Group's long-term financial outlook and assessed and prioritised growth opportunities. ▪ Assessed management remediation plans for Property Services to improve client service and operational delivery.
Outcome	As a result of the 2023 strategy review process, the Board decided that: ▪ our strategy will remain focused on organic growth across the divisions and we will continue to develop our responsible business strategy so that we maintain our leadership position and remain competitive in our markets; ▪ it would keep under consideration future strategic investment opportunities to accelerate future growth; ▪ the medium-term targets which were updated in August 2023 remain reasonable and achievable; ▪ in the current economic environment and to manage short-term uncertainty, we should remain committed to maintaining a strong balance sheet and significant net cash, while decisions over future capital allocation over the longer term will remain under regular review; ▪ the Group has high levels of social diversity; however, more work still needs to be done by the divisions to address gender and ethnic diversity and inclusion; ▪ succession planning throughout the Group will remain a key focus area of the nomination committee as we continue to respond to challenges of an ageing employee population; ▪ the remediation programme in Property Services will be kept under close review; and ▪ overall our strategy remains fit for the future and our business model is sustainable, taking into consideration future risks and opportunities.

Annual strategy review process

Each non-executive director is allocated one or two divisions.	The divisions are allocated on a rotational basis each year so that the Board learns about the concerns and issues of all divisions' stakeholders.
The non-executive meets with the managing director and senior team of their allocated division to review: ▪ recent operational and financial performance, including risk management and safety; ▪ market and pipeline of opportunities; ▪ culture; ▪ adequacy of resources to deliver on strategy; ▪ employee engagement; ▪ outlook and medium-term targets; and ▪ initiatives to assess the impact of operations on the environment and to deliver social value to local communities.	The non-executive meets with the division's employees without managers present and visits one or two live projects where they can engage with a mix of employees, subcontractors and suppliers. The wider management teams of two divisions are also invited on a rotational basis to meet the Board in a less formal meeting each year, which provides an opportunity for the non-executives to engage with employees outside the formal strategy review process. These meetings enable the non-executives to assess the divisions' contribution to the Group's long-term success as well as their impact on its key stakeholders.
The non-executive, chair and chief executive hold a meeting with the division's managing director.	The non-executive provides feedback to the divisional managing director on their strategic plan, including how stakeholders have been taken into consideration.
The Board holds a strategy day in October where the non-executives each present a summary of their observations and opinions on their allocated divisions' strategic plans.	The non-executives provide feedback to the rest of the Board from their respective divisional reviews. The Board as a whole reviews and approves the divisional strategic plans and the Group strategy.

Determining the Group's risk appetite

Factors considered	The Board refers to our risk appetite when setting our strategic priorities and targets, making decisions, and allocating resources. In agreeing risk appetite, the Board considers the key risks that could impact our business model, strategy or reputation. It takes into consideration the expectations of our stakeholders, particularly those identified in the principal risks section on pages 69 to 77. The Board recognises that a prudent and robust approach to risk mitigation must be balanced with some flexibility. This is to ensure that our divisions are not restricted in embracing business opportunities appropriate to their markets and expertise while securing high levels of customer satisfaction and maintaining the Group's reputation.
Action taken	▪ Confirmed that, through the activities of the audit committee, a robust assessment of the principal and emerging risks facing the Group, including those that would threaten our business model, future performance and solvency, had been carried out and the effectiveness of our systems of internal control and risk management had been reviewed. ▪ 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 our activities to ensure we have a reasonable level of protection against risks arising from uncertainties in the macroeconomic environment. ▪ Monitored any risks arising that lie outside or towards the upper end of our risk appetite so that they could be managed appropriately. ▪ Reviewed general market conditions and key trends to identify and assess future risks and opportunities.
Outcome	The Board's risk appetite reviews in October and December 2023 concluded that: ▪ although uncertainty remains around inflation control, interest rates and the forthcoming general election, we are confident that our business model is agile and the markets we operate in are structurally secure. In addition we are competitive in a less certain macroeconomic environment due to the strength of our order book, balance sheet and cash reserves. We will continue to provide appropriate support to our supply chain; ▪ by staying focused on our core strengths and capabilities, we can continue to win work in accordance with our risk appetite, expertise and resources, maintain predictable outcomes for our projects, and achieve organic growth; ▪ the Board will continue with its regular oversight of the significant mitigation work being done and monitor our progress in implementing our strategies to improve our IT and cyber resilience (see page 77). In addition, it will conduct a deep dive review into the risks and opportunities of artificial intelligence to ensure they remain within our risk appetite; ▪ health and safety remains a high priority and we will continue with our goal to drive this risk down towards zero incidents; ▪ the Group risk appetite and risk management framework remain appropriate for providing the business with medium- to long-term resilience; and ▪ our governance framework, structures and policies, such as our 'delegated authorities' document, adequately reflect our approach with regard to specified risks.

Reviewing our risk appetite

Audit committee review – August and December 2023	The audit committee assists the Board by reviewing twice a year the Group and divisional risk registers and risk management and internal control processes, and conducting deep dives into key topics (see pages 128 and 129).
Board review – October 2023 and February 2024	Following its review of the Group risk register, five-year strategic plan and three-year budget period, the Board considers our established risk appetite statements, which broadly cover strategic, tactical, operational and compliance objectives, to compare current levels of risk in these categories with our risk appetite and risk tolerance levels. The Board then agrees any actions to be taken for future monitoring as a result of changes to net risk levels. Our integrated approach to risk management (see page 66) facilitates our annual assessment of the Group's long-term viability. See pages 96 and 97 for our approach to assessing long-term viability, incorporating scenario modelling based on relevant principal risks.

Setting the Group budget

Factors considered	In reviewing the budget for 2024, the Board considers the impact on our employees, suppliers, clients, shareholders and wider stakeholders to ensure we are managing our finances and have the appropriate resources to deliver against our strategy.
Action taken	▪ Tracked performance of the Group budget against agreed KPIs. ▪ Reviewed Group and divisional budgets which form the basis for setting the overall Group budget. ▪ Reviewed market conditions, in particular current economic uncertainty and key trends that support the Group's future growth (see pages 8 and 9). ▪ Reviewed the level of contingency in the budget to mitigate ongoing uncertainty in the macroenvironment. ▪ Reviewed the contribution that the budget will make to delivering our five-year strategic plan.
Outcome	Approved the Group budget, ensuring that we have sufficient resources and that targets are suitably stretching but achievable and will contribute to the Group's long-term growth.

Directors' and corporate governance report continued

The Board's engagement with stakeholders

Effective engagement with our stakeholders is critical to the long-term resilience of the business. When making decisions, the Board will take into account the views of our stakeholders and the impacts its decisions might have on them.

Throughout 2023, the Board engaged directly with our employees and shareholders. At the same time, it was kept fully informed of any material issues or feedback relating to other stakeholders via the executive directors, divisional management reports and the cultural indicators set out on pages 111 to 113. The Group's engagement with our key stakeholder groups and our understanding of their key priorities is described on pages 17 to 19, while the Board's direct engagement activities are set out below.

Shareholders

The chair's statement on page 100 and the remuneration committee report on page 135 details the non-executive directors' engagement with shareholders during the year. The executive directors also engage directly with shareholders (see page 17) and feedback from these meetings is shared with the Board. Shareholders are invited to attend our AGM and given the opportunity to submit questions in advance of the meeting.

Employees

The Board continues to use an alternative method to the three options for employee engagement suggested by the Code. Given the structure and culture of our business and the size of our Board, we consider that the Board can engage most effectively with the largest number of employees if the responsibility is shared across all our non-executive directors.

Each year, as part of our strategy review process, the non-executive directors meet a wide range of employees at site visits and divisional employee conferences. In addition, the Board reviews how the divisions have engaged with their employees, including the results of surveys and actions taken in response. Employee feedback gives the Board an understanding of how people feel about their division and the wider Group, and whether behaviours are aligned with our Core Values and culture.

At its December meeting, the non-executive directors gave feedback to the Board on their overall observations they had received from directly engaging with employees during the year and their review of the divisions' engagement activities. They confirmed that:

- there are very good levels of engagement across the Group and employees are willing to speak up, which allows the Board to get a good understanding of culture and employees' views;
- across all divisions, culture came across strongly and clearly and employees that the directors met were open, positive and engaged;
- no issues were identified that needed to be addressed or considered in decision-making that are not currently addressed by the Board or by the divisions themselves; and
- the employee engagement process that we use remains appropriate and allows the non-executive directors to meet a broad range of employees and engage in a variety of ways through a mix of group and one-to-one sessions.

Oversight of workplace policies and practices

We have a framework of Group policies in place to ensure integrity, ethicality and honesty in our activities and openness and transparency in our communications. These policies set out minimum standards which each division is free to develop further to suit the particular needs of its business.

The Board reviews and approves key Group policies, including our Code of Conduct (see pages 94 and 95 for other examples), to ensure they align with our purpose, values and strategy. We monitor compliance with our policies as part of our internal audit programme and report any areas of non-compliance to the audit committee.

Raising concerns

The Group's general counsel, assisted by the company secretary and head of internal audit and assurance, oversees any reports of concerns, including those received via our whistleblowing service (see page 25 for detail). The reports are logged, investigated and tracked through to conclusion. Records are kept of actions taken, which can include increasing controls in certain areas. For example, in previous years, our controls around scrap metal disposal were tightened to further discourage theft. Other measures might include providing additional training, increasing individual performance management, or dismissal.

Twice a year, the Board reviews our arrangements for raising concerns to ensure they are suitably robust. We received 58 reports in 2023 (2022: 38), of which 22 (2022: 19) came via our raising concerns/whistleblowing service. This equates to one report per 132 employees, comparing favourably to one report per 400 employees which is the average for Safecall's other construction clients. This indicates that our employees have a high level of awareness of ethical issues and are willing to speak up. The top three issues raised related to HR matters such as bullying, harassment and discrimination, substance abuse, and allegations of theft or fraud. Wherever allegations of theft or fraud by individuals are substantiated, this invariably results in dismissal, in order to reinforce our ethics to employees and other stakeholders. In 2023, the Board satisfied itself that none of the issues raised were systemic across the Group but were isolated to individuals or specific circumstances. No specific complaints were escalated for Board attention outside its normal review, and the Board was satisfied that all the reports made in the year were correctly investigated and resolved in an appropriate way.

Tax governance

The Board has overall responsibility for our tax strategy, risk assessment and tax compliance, and ensuring that we meet all our tax obligations. We have an open and transparent relationship with HMRC, preferring to anticipate any tax risks at an early stage and clarify areas of uncertainty with HMRC as they become evident. We keep HMRC informed of how our business is structured and respond to its questions or requests promptly. Our tax strategy was reviewed by the Board in December 2023 and is available on our website.

Nomination committee report

Michael Findlay
Chair

Key responsibilities:

- Board and committee composition
- Identifying potential skills and experience gaps
- Leading the Board appointment process
- Reviewing succession planning for the Board and GMT
- Reviewing wider senior leadership and divisional succession planning
- Overseeing the Board evaluation process
- Monitoring activities to increase diversity and inclusion throughout the Group

The committee's full role and responsibilities are set out in its terms of reference which were reviewed and approved by the Board in February 2023 and are available on our website.

The quick read...

- Reviewed regularly the composition and balance of skills of the Board and its committees to ensure that the composition of each remains suitable
- Reviewed Board/committee succession planning and managed the search for an audit committee chair to replace Malcolm Cooper and a new finance director to replace Steve Crummett in 2024
- Identified and briefed Jen Tippin to replace Tracey Killen as remuneration committee chair
- Reviewed succession plans for the GMT and senior leaders and progress in diversity and inclusion
- Managed the externally facilitated evaluation of the Board and committees and the evaluation of individual directors

I am pleased to present to you the report from the nomination committee for 2023.

Committee composition and performance evaluation

The committee's membership is shown in the table below. The executive directors, members of the senior management team and external advisers may be invited by the committee to attend all or part of any meeting, as and when appropriate.

Members[1]	Member since	Attended/ scheduled
Michael Findlay[2] (chair)	2016	4/4
Malcolm Cooper	2015	3/4
Tracey Killen[3]	2017	3/4
David Lowden	2018	4/4
Kathy Quashie	2022	4/4
Jen Tippin	2020	4/4

1 Biographies of members are set out on pages 104 and 105. In compliance with the UK Corporate Governance Code, the majority of committee members are independent non-executive directors.
2 Michael Findlay is not permitted to chair parts of meetings where his own succession and performance are discussed.
3 Tracey Killen was a member of the committee from 2017 until her resignation from the Board on 31 December 2023.

Our externally facilitated evaluation of the Board in 2023 included an evaluation of the committee (see page 123 for further details of the process). This concluded that the committee was continuing to work well with open, engaging and informative discussions and had clear plans in place for non-executive director succession. It was agreed that the committee would continue its focus on succession planning including reviewing the skills and attributes framework for senior roles.

Board composition and skills

Throughout the year, the committee kept the Board's composition and the skills, knowledge and experience they bring to Board discussions under review; this helps facilitate future succession planning. It reviewed the size and structure of the Board and committees, the range of expertise required, whether there were any gaps in skills and knowledge, diversity in its broadest sense, and the lengths of tenure of the non-executive directors (see page 118). At its December meeting, after discussing the outcome of the Board evaluation review, the committee concluded that the Board has a good broad mix of skills and that no material skills gaps had been identified on either the Board or its committees.

Directors' and corporate governance report continued

Nomination committee report

Induction and training for directors

Every new director is given an induction programme tailored to their background and experience. It includes meetings with the chair, executive directors, divisional managing directors, company secretary and other senior management to help the director gain an understanding of the Group's governance, culture, strategic priorities and how each division operates. Sharon Fennessy joined the Board on 1 January 2024 and the company secretary worked with Sharon to devise a personalised programme. Priorities included meetings with the current audit committee chair, external auditor, head of audit and assurance, and meetings with the executive directors and divisional managing directors to provide specific industry-related upskilling.

To maintain the non-executive directors' understanding of the business, GMT members and other senior executives are invited from time to time, as appropriate, to present to the Board and committees on their areas of responsibility. The non-executives are also encouraged to meet with the divisional teams during the year outside of Board meetings, including visits to their projects. Such meetings between non-executives and the divisions also take place as part of the Board's annual strategy review.

All directors undertake external training and/or attend seminars relevant to their duties. They also sit e-learning modules and refresher training courses on a range of topics, issued periodically by the Company.

Succession planning and recruitment

All our succession planning focuses on the short, medium and longer term.

In its succession planning for the Board and committees, the committee has a clear strategy for the chair and non-executive directors, taking into consideration their lengths of tenure and the combination of skills, experience, knowledge, diversity and independence on the Board. In February 2023, the committee reviewed the Board skills matrix, which new directors are asked to complete and which reflects directors' self-assessment of the skills and experience they bring to Board discussions. The purpose of this annual review is to ensure that the Board as a whole has the skills required to meet our strategic priorities and future growth and to identify succession planning priorities. Later in the year, as part of implementing its succession plan, the committee oversaw the search for a new non-executive director and finance director.

The standard term for non-executive directors is three years, although they can serve for up to nine years through three three-year terms (see page 148 for further information). In accordance with the Company's articles of association, all directors retire from office and offer themselves for reappointment by shareholders at every AGM. Before being recommended for reappointment, each director is subject to a formal review in relation to the performance of their duties under section 172 of the Companies Act 2006. The Board has set out on pages 104 and 105 the specific reasons why each director's contribution is, and continues to be, important to the Group's long-term success. Further information on the 2024 AGM can be found in the Notice of Meeting to shareholders accompanying this annual report or on our website.

The committee has a formal recruitment process in place for appointing new directors which includes reviewing and approving an outline brief and clear role specification, identifying a search agency to find potential candidates, and agreeing a shortlist of candidates for interview prior to making a recommendation for appointment to the Board. Full details of the recruitment process are disclosed in the annual report that follows the new director's appointment. The panels on page 119 show the processes for appointing Sharon Fennessy as non-executive director and Kelly Gangotra, who is joining the Group as finance director in the third quarter of 2024.

Each year, the committee carries out a formal review of longer-term succession planning for the executive directors and GMT. The review takes account of the opportunities and challenges facing the Group. In 2023, the review included revisiting and updating the characteristics, skills and expertise needed from the Group's most senior leaders both now and in the future. Our chief executive manages GMT succession planning and the divisions prepare plans for their senior leaders. Our priority is to identify appropriate opportunities for people in the Group who are key to delivering our strategy, and assess whether they require further development in any specific areas. Where we have not been able to identify an immediate successor for a role, we ensure there is short-term contingency cover in place. The committee monitors the external market for potential successors, while internally those identified as potential successors in the medium to longer term are provided relevant training and development. Our Group-led leadership development programme, which runs every year, provides core and consistent leadership training for senior employees across the Group.

The committee has oversight of the divisions' succession planning for their senior leaders. In 2023, each divisional managing director provided the committee with their succession plan and a detailed paper on the actions they are taking to develop their people and maintain a pipeline of potential successors aligned to the Company's long-term strategic priorities.

Each division uses succession and development planning tools appropriate to the size and requirements of its business. These tools enable the divisions to review performance and potential talent, drive coaching conversations, and identify individuals' abilities and career aspirations. Technical and business training programmes are run to develop the skills that each business and its employees need. These include management training, mentoring, apprenticeships, graduate training, specific site skills training and supporting employees with their continued learning in order to gain recognised qualifications (see pages 28 and 29 for more detail). The divisions consider their current employees for all new roles and development opportunities and, in 2023, 674 employees across the Group were promoted internally.

The committee is satisfied that the succession planning and development programmes used throughout the Group remain appropriate.

Directors' and corporate governance report continued

Nomination committee report

2023 Board and committee appointments

Malcolm Cooper's final three-year term as a non-executive ends in November 2024, and the committee conducted a search for an external successor as chair of the audit committee (see panel below left).

In November 2023, the Board was delighted to announce Sharon Fennessy's appointment. In reaching its recommendation, the committee considered potential conflicts and time commitment and noted that Sharon was expected to step down from her role as non-executive director of the John Lewis Partnership in 2024. The committee was therefore satisfied that Sharon would have sufficient time to meet her responsibilities to the Group, including the additional preparation needed to chair the audit committee. Sharon will succeed Malcolm Cooper as audit committee chair on 4 May 2024, while Malcolm remains a member of the audit committee to act as a mentor and ensure a smooth handover.

On 23 November 2023, we announced that Tracey Killen had notified the Board of her intention to step down as a non-executive director on 31 December 2023. Jen Tippin was recommended by the committee to replace Tracey as chair of the remuneration committee, with effect from 7 December 2023.

Jen has served as a member of the remuneration committee for almost three years. She was considered by the nomination committee to have relevant experience through her current position as group chief people and transformation officer for NatWest and her previous role at Lloyds Banking Group as group director, people and productivity. The committee discussed the role with Jen and agreed that she would be able to commit the time needed to manage her additional responsibilities. To facilitate the handover, Jen attended a meeting with Tracey and the Group's remuneration consultants, Ellason.

In addition to searching for a successor for Malcolm, in the fourth quarter of 2023 the committee undertook, with the assistance of Korn Ferry, an extensive search for a finance director to succeed Steve Crummett when he retires from the Board on 31 December 2024 (see panel below right). The Board selected Kelly Gangotra, who has a wealth of experience and excellent track record as a chief finance officer working in a decentralised business, and is highly experienced in the construction and property industry. It is anticipated that Kelly will join the Group in the third quarter of 2024, allowing a period of handover from Steve Crummett.

Searching for the right non-executive director

The committee identified two potential search firms and the Board appointed Korn Ferry[1].

Following its appointment, Korn Ferry was provided with a detailed brief of the role and responsibilities of a non-executive director and audit committee member and chair, the time commitment that would be expected, and the skills and experience required.

The committee agreed that the successful candidate would have:

- a strong strategic and commercial background in a customer-focused industry;
- recent and relevant financial experience appropriate to take over as chair of the audit committee;
- recognition of the importance of ESG;
- an understanding of the benefits of technology to drive change and competitive advantage; and
- previous non-executive and audit committee experience if possible.

A long list of candidates was reviewed by the committee. Shortlisted candidates were invited for interviews with the chair, executive directors and Malcolm Cooper. The other non-executives were then invited to meet the committee's recommended candidate prior to a recommendation for appointment being made to the Board.

1 Korn Ferry does not provide any other services to the Company nor has any connection to the Company or any of its directors.

Searching for the right finance director

Korn Ferry was appointed to assist the committee with the search for a new finance director and was provided with a detailed brief of the role and responsibilities of a finance director.

The role specification included strong financial management to facilitate growth and the delivery of long-term value, leadership capabilities, personal characteristics and key experience, as well as appreciation of our decentralised approach and an understanding of our culture and Core Values.

The committee assessed external candidates identified through its monitoring of the external market as well as internal candidates identified through our succession planning.

Candidates were invited to take part in a formal assessment overseen by Korn Ferry, and formal interviews were conducted by the chair and senior independent director. The other Board members were each invited to meet the recommended candidate.

Proposed remuneration arrangements for the incoming finance director were reviewed and approved by the remuneration committee (see page 139).

The committee recommended that the Board approve the appointment of Kelly Gangotra as Group finance director to join in the third quarter of 2024. The Board unanimously approved the appointment and a regulatory announcement was released on 12 December 2023.

Directors' and corporate governance report continued
Nomination committee report

Diversity and inclusion

Our Board diversity policy, which can be found in the Governance section of our website, aims to continuously improve the diversity of the Board and its committees and to ensure that diversity and inclusion are embraced at all levels across the Group and reflected in our culture and values. The Board's objectives as set out in its diversity policy are as follows:

- women making up at least 40% of the Board (including those self-identifying as women);
- at least one senior Board position (chair, chief executive, senior independent director or finance director) being held by a woman (including those self-identifying as a woman);
- women (including those self-identifying as women) making up at least one third of the senior management team (our GMT); and
- at least one member of the Board being from a minority ethnic background.

See table below and commentary on page 121 for our current performance.

The chair of the Board leads the agenda to continuously improve Board diversity. We believe that a Board of directors with a broad mix of skills, backgrounds, perspectives and experience will contribute a wider range of ideas and expertise and drive innovation. We consider diversity in the broadest sense, including age, gender, ethnicity, culture, socio-economic background, disability and sexuality. The committee ensures that selection processes for directors provide access to a diverse range of candidates and will only use executive search firms that have signed up to the UK Standard Voluntary Code of Conduct on Gender Diversity. Board appointments are based on merit and objective criteria such as the skills and experience needed, but with due regard for the objectives set out in the Board diversity policy.

While our Board diversity policy applies to the Board, its committees, the GMT, and the GMT's direct reports, it also sets the tone Group-wide. We believe our strategy of organic growth is supported by increasing diversity and inclusion at all levels of the business, encouraging different ways of thinking, and giving every employee the opportunity to use their abilities, skills and experience to the full. The chief executive is responsible, on behalf of the Board, for improving diversity across the Group and ensuring we have a fully inclusive culture. Our approach is reflected in our human rights policy and Code of Conduct, the latter stating our commitment to maintaining a respectful and inclusive workplace based on trust and mutual respect, and valuing the fresh ideas and perspectives that people from different backgrounds bring to our business. The committee and the Board monitor the divisions' progress in increasing diversity and inclusion as part of reviewing their succession planning, recruitment and development programmes.

Our current levels of diversity

In accordance with LR 9.8.6 (10), the Companies Act 2006 and the UK Corporate Governance Code, the following two tables set out the diversity of the Board and executive management (our GMT). For fuller disclosure we have also included the diversity of the GMT's direct reports.

Diversity of sex of the Board and executive management at 31 December 2023

	Number of Board members	Percentage of the Board	Number of senior positions on the Board[1]	Number in executive management[2]	Percentage of executive management[2]	Number of direct reports to the GMT	Percentage of direct reports to the GMT
Men	5	62.5%	4	9	90.0%	56	65%
Women	3	37.5%	0	1	10.0%	30	35%

Ethnic diversity of the Board and executive management at 31 December 2023

	Number of Board members	Percentage of the Board	Number of senior positions on the Board[1]	Number in executive management[2]	Percentage of executive management[2]	Number of direct reports to the GMT	Percentage of direct reports to the GMT
White British or other White (including minority White groups)	7	87.5%	4	10	100.0%	79	91.8%
Mixed/multiple ethnic groups	1	12.5%	0	0	0.0%	1	1.2%
Asian/Asian British	0	0.0%	0	0	0.0%	0	0.0%
Black/African/Caribbean/ Black British	0	0.0%	0	0	0.0%	2	2.3%
Other ethnic group, including Arab	0	0.0%	0	0	0.0%	1	1.2%
Not specified/prefer not to say	0	0.0%	0	0	0.0%	3	3.5%

1 Chief executive, finance director, senior independent director and chair.
2 John Morgan and Steve Crummett are included in both Board and executive management (GMT).

Directors' and corporate governance report continued
Nomination committee report

In accordance with the Companies Act 2006, the table below shows our Group-wide diversity in numbers, as well as percentages.

Group-wide diversity at 31 December 2023

	2023 by number	2023 by percentage	2022 by number	2022 by percentage
Men	5,566	74%	5,303	75%
Women	1,932	26%	1,755	25%
Minority ethnic background	726	10%	610	9%
Non-minority ethnic background	6,772	90%	6,448	91%

All the data in the tables above has been collected from our HR records, which are held securely and accessible only to a select number of employees.

We have exceeded the Hampton-Alexander Review target of 33% of women on the Board and met the LR 9.8.6R(9)(a)(iii) and Parker Review and our diversity policy target that one person on the Board is from an ethnic minority background. However, with women representing 37.5% of the Board, we have not, as at the date of this report, met the LR 9.8.6R(9)(a)(i) target and our diversity policy target of 40% or the target of at least one of the senior positions (chair, chief executive, senior independent director or finance director) being held by a woman. However, on 12 December 2023, we announced that Kelly Gangotra will succeed Steve Crummett as finance director and will join the Board in the third quarter of 2024, after which we will have met both of these targets. Board diversity will continue to be a factor of consideration in recruitment while also having regard to the needs of the business. The three non-executives recruited to the Board since 2020 have been women. Jen Tippin has replaced Tracey Killen as remuneration committee chair, while Sharon Fennessy will become chair of the audit committee in May 2024.

We have not yet achieved our target of women making up at least one third of the GMT. However, we have been working on increasing the gender diversity of the direct reports of the GMT, currently 35% women (2022: 32%, 2021: 26%). We will seek to increase diversity on the GMT with future succession plans.

In its examination and discussion of diversity within the divisions, the committee considered the progress made by each division against its diversity strategy. The committee noted the actions they have taken during the year to increase diversity (see pages 27 and 28); the effectiveness of recruiting and developing more diverse candidates early in their careers and then ensuring they have the right opportunities to retain them; that the Group has a good mix of people from different social backgrounds and educational experience; and the divisions' future plans to increase diversity. We recognise that historically our industry has not been attractive to a wide pool of candidates, particularly female, and that we have to ensure that the people we recruit have the right skills. However, while diversity remains a challenge for us, our divisions' initiatives are starting to show results and we are gradually making progress.

Directors' and corporate governance report continued
Nomination committee report

Board evaluation

In its 2022 evaluation review, the Board agreed that the areas listed in the table below remained critical to the long-term delivery of our strategy. Throughout 2023, the Board continued to undertake activities in these areas, as shown in the table.

2022 Board evaluation – actions taken in 2023

Agreed focus areas	Actions taken in 2023
Succession planning	▪ The composition and skills and experience on the Board were considered appropriate to meet the future needs of the business. ▪ Progress was made during the year with the announced Board changes and changes to the GMT. ▪ The nomination committee reviewed wider business succession plans including how talent is identified and developed. It was agreed that further work is needed to develop and identify potential successors where gaps in succession for senior management positions have been identified.
Maintaining our Group culture	▪ The Board has remained focused on culture, predominantly during the strategic review process and through its monitoring of various cultural indicators (see pages 111 to 113) and reports received from internal audit (see page 130).
Increasing diversity and inclusion	▪ The Board and its committees reviewed how diverse talent is being recruited, maintained and developed and it was agreed that next steps include each division formalising action plans to meet the 2027 diversity targets it has set.
Ensuring that Partnership Housing delivers its potential in accordance with its five-year strategic plan	▪ The Board received regular reports from Partnership Housing, with progress being made during the year demonstrating resilience in its business model despite challenging short-term market conditions. The Board will continue to review Partnership Housing's performance against its medium-term targets.
Continuing to build on the progress made in communicating our performance against our Total Commitments, including the social value we create	▪ The responsible business committee reviewed the key updates to our 2023 TCFD statement and the work undertaken to strengthen our disclosure, along with how the Group is preparing for and monitoring potential future reporting requirements.

In 2023, we conducted an externally facilitated Board evaluation. The nomination committee reviewed three independent board assessment consultants who had submitted proposals and, following interviews with the chair, chief executive and company secretary, the Board agreed to appoint Longwater Partners (Longwater). Longwater works in conjunction with CBJ Business Psychologists (CBJ), chartered business psychologists who specialise in executive assessment. Neither firm provides any other services to the Company nor has any connection to the Company or its directors. Longwater is not a signatory to the Code of Practice for reviewers. In selecting and agreeing the scope and process of the Board evaluation, the committee followed the Principles of Good Practice for listed companies using external board reviewers issued by the Chartered Governance Institute. The main objective of the evaluation was to review the work of the Board and its committees in relation to its remit as set out in its terms of reference and, where applicable, benchmark it against best practice as set out in the UK Code of Corporate Governance, with particular focus on assessing how well the Board and relevant committees had addressed the pertinent issues identified from the 2022 evaluation. Longwater was given the opportunity to comment on the description of the process shown on page 123 and the conclusions contained in this annual report prior to its publication.

The 2023 external evaluation process

- Desktop review by Longwater and CBJ of Board materials and previous evaluation questionnaires and results that were provided to Longwater by the company secretary. The chair was identified as the reviewers' escalation point but no issues arose that required escalation during the process.
- Each Board member completed an electronic questionnaire on topics such as strategic planning, governance, Group financial and ESG performance, the Board's relationships with key stakeholders, Board culture and dynamics, effectiveness of decision-making, succession planning, and action on diversity and inclusion.
- The questionnaire was customised as appropriate for the committees.
- Longwater and CBJ collated the information and presented the results and recommendations to the chair, chief executive and company secretary.
- The chair presented the outcomes of the evaluation at the December Board meeting for discussion and approval of follow-up actions.
- The chair held meetings with each director individually to formally review their performance, taking into consideration any training they had undertaken.
- The senior independent director led the Board appraisal of the chair's performance.

A summary of results and agreed focus areas for 2024 including how the evaluation has or will influence Board composition is set out below. We will report on progress against these and any further actions in our 2024 annual report. Following the individual meetings with each director, the committee agreed that each of the non-executive directors remains independent, is able to discharge their duties and responsibilities for the coming year and continues to be an effective member of the Board.

Conclusions of the 2023 evaluation and actions agreed

The 2023 external Board evaluation confirmed that the Board and committee meetings are well run and effective, and that the members are highly experienced and collaborate effectively. It was agreed that considerable progress had been made on the issues and actions identified from the previous Board evaluation. The Board agreed that its future focus would continue in the following areas:

Board succession	Future succession planning considerations for the chair who was appointed in 2015.
	Continued oversight of the Company's senior leadership development and succession plans.
	Reviewing the skills and attributes framework for senior leaders to ensure a continuing pipeline of high-quality internal candidates.
Equality, diversity and inclusion (EDI)	Practically addressing improving EDI across the Group through a data-led approach and clear plans for delivering EDI outcomes.
Delivering on the Total Commitments	Continuing to monitor emerging trends in ESG to ensure our targets are representative of what our stakeholders expect, both in the short and medium term.
Ensuring progress is sustained in Partnership Housing	The Board will continue to monitor Partnership Housing's progress and pace against its strategic plan.
Board training and upskilling	The Board will undertake a session on AI in 2024 to deepen its knowledge and understanding.

Each committee reviewed its feedback from the evaluation. Details of actions being taken can also be found in the individual committee reports.

Looking ahead

In 2024, the committee will consider setting an ethnic diversity target for the GMT by December 2027 in line with the Parker Review Update Report 2023, while continuing its focus on:

- succession planning for the Board and GMT;
- succession planning in the divisional management teams; and
- improving diversity and inclusion across the Group.

Michael Findlay
Chair of the nomination committee
21 February 2024

Audit committee report

Malcolm Cooper
Chair

Key responsibilities of the committee:

- Monitoring the integrity of the Company's financial results and reviewing significant financial reporting judgements
- Reviewing the external audit process and making recommendations to the Board with regard to appointing, reappointing or removing the external auditor
- Reviewing the Company's internal financial controls and internal control and risk management systems
- Monitoring and reviewing the effectiveness of the Company's internal audit function

The committee's full role and responsibilities are set out in its terms of reference, which were approved by the Board in February 2023 and are available on our website.

The quick read...

- Focused on the integrity of the 2023 financial statements and provided appropriate challenge of management's assumptions and key judgements
- Ensured the independence and effectiveness of the internal audit function
- Reviewed and confirmed the independence and effectiveness of the external audit process
- Reviewed the effectiveness of the Company's internal financial controls and internal control and risk management systems
- Conducted further reviews of the fire safety provision
- Carried out a robust assessment of the Company's emerging and principal risks to facilitate the Board's risk appetite review

On behalf of the Board, I am pleased to present the committee's report for the year ended 31 December 2023.

Committee composition and performance evaluation

The committee's membership is shown in the table below. At the committee's request, meetings are regularly attended by the chair of the Board; finance director; Group financial controller; Group head of audit and assurance; EY lead audit partner; and other representatives from the external auditor. The committee also meets privately with the external auditor and Group head of audit and assurance in case they wish to raise any concerns outside of the formal meetings.

Members[1]	Member since	Attended/ scheduled
Malcolm Cooper[2] (chair)	2015	3/3
David Lowden	2018	3/3
Jen Tippin	2020	3/3

1 Biographies of members are set out on page 105. In compliance with the Disclosure and Transparency Rules (DTRs) and the UK Corporate Governance Code ('the Code'), all committee members are independent non-executive directors, and the committee as a whole has competency, skills and experience relevant to the sector.

2 Malcolm Cooper is a qualified accountant and experienced FTSE 250 audit committee chair. He has competency in accounting and financial experience that is recent and relevant for the audit committee of a company in the construction and regeneration sectors, as required by the DTRs and the Code.

Our externally facilitated Board evaluation in 2023 included an evaluation of the audit committee (see page 123 for further details of the process). Overall, the review confirmed that the committee is performing effectively, has a strong chair, receives clear, concise pre-reading papers, and has strong advisory support when required. It was agreed that the committee will keep incidents of fraud, should they arise, under review to ensure there are no systemic issues in the business.

Key activities during the year

Committee meetings are scheduled in line with the Company's financial reporting cycle and a formal agenda ensures that all parts of the committee's remit are covered. The committee considers it has been compliant with the Code and the FRC Guidance on Audit Committees and applied the FRC's Audit Committees and the External Audit: Minimum Standard after it was published in May 2023. The committee's key activities during the year are set out in the following table, and further information on its work is set out on the subsequent pages.

Directors' and corporate governance report continued
Audit committee report

	Actions taken	Outcomes
Financial reporting	▪ Undertook the fair, balanced and understandable review of the 2022 annual report. ▪ Reviewed significant accounting judgements for the 2022 audit. ▪ Reviewed the 2022 viability assessments and management's process and assumptions for assessing viability. ▪ Reviewed the 2022 going concern statement and management's forecasts and projections for 2023. ▪ Reviewed the half-year and full-year financial and narrative statements and trading updates, including the alternative performance measures presented and the disclosure of reconciliations back to the IFRS statutory reported figures. ▪ Assessed whether suitable accounting policies and practices have been applied, including in respect of any exceptional items, for example the continuing appropriateness of the provision allocated for the Building Safety Act and the developers' pledge across Partnership Housing and Urban Regeneration. ▪ Conducted a review of the half-year 2023 going concern assessment and an initial review of the 2023 full-year going concern and viability assessments. ▪ Reviewed the Group's approach to TCFD, the TCFD statement, scenario analysis and compliance with climate change reporting, including consideration of climate change risks and the approach taken to quantify our climate-related risks and opportunities. ▪ Reviewed the requirements of the FRC's Audit Committees and the External Audit: Minimum Standard to ensure we met the requirements.	▪ Advised the Board in relation to the fair, balanced and understandable assessment of the Company's position and prospects. ▪ Confirmed to the Board that the committee was satisfied with the clarity and accuracy of the half-year and full-year financial statements. ▪ Confirmed to the Board the appropriateness of the going concern and viability assessments and that the assumptions were reasonable. ▪ Approved the Group's draft 2023 TCFD statement including details of the Group's risks and opportunities in relation to climate change and scenario analysis. ▪ Considered, alongside the external auditor, the level of provision allocated for our liability for fire remediation works under the Building Safety Act. Agreed with the re-estimation of liabilities in respect of the Group's building safety provision announced at the half year. ▪ Reviewed the climate change scenario analysis and confirmed that the approach taken was appropriate. ▪ Reviewed management's paper on the effect of splitting the reporting of Construction & Infrastructure into separate segments, including the reallocation of goodwill between each business.
External auditor	▪ Reviewed and monitored the independence and objectivity of the external auditor. ▪ Evaluated the performance of the auditor during the 2022 audit and the effectiveness of the external audit process. ▪ Monitored compliance with our Group policy on the engagement of the external auditor to supply non-audit services.	▪ Recommended the appointment of EY as external auditor for the financial year ended 2023. ▪ Approved the audit fee for the year ended 2023. ▪ Confirmed compliance with the Group policy on non-audit fees and no risk to the independence of the external auditor. ▪ Recommended the reappointment of EY as auditor for the year ended 2024.
Risk management and internal controls	▪ Formally reviewed the effectiveness of the risk identification process and Group and divisional risk registers and the approach taken by the Group to address climate-related financial risk. ▪ Conducted deep dives into key risk areas. ▪ Reviewed the effectiveness of the Group's internal financial controls and internal control and risk management systems. ▪ Monitored and reviewed the effectiveness and performance of the Group head of internal audit and assurance in connection with the 2023 agreed internal audit plan. ▪ Reviewed the appropriateness of the 2024 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. ▪ Considered the risk management and internal control systems to be effective. ▪ Approved the 2024 internal audit plan.

Directors' and corporate governance report continued
Audit committee report

Financial reporting and significant accounting matters

The directors are responsible for preparing the annual report and accounts (see responsibility statement on page 166). The committee is responsible for reviewing and reporting to the Board on the clarity and accuracy of the half-year and full-year financial statements before proposing them to the Board for approval.

In order to monitor the integrity of the Group's reporting and financial management processes, the committee receives and reviews in detail papers from the finance director and the Group's financial controller together with reports on the work and findings of the external and internal auditors, who are also regularly invited to attend meetings of the committee. This ensures that there is effective communication between all the relevant parties and that the financial statements present a 'true and fair' view. It also gives committee members the opportunity to assess whether suitable accounting policies have been adopted and to discuss and challenge management, where appropriate, on matters such as the appropriateness of accounting policies that have been adopted, the robustness of critical accounting judgements, and key accounting estimates reflected in the financial results, to ensure that it is satisfied with the outcome.

As part of its work in 2023, the committee reviewed four significant matters which required the exercise of judgement in connection with the financial statements. The detail of what was reviewed and discussed and the conclusions reached are set out in the table below. The first three items are recurring matters. 'Exceptional items in respect of building safety' was a new item in 2022 and remains in 2023 due to continued estimation. Further information on the significant accounting policies that have been applied and critical judgements and estimates that the directors have made can be found on page 192.

Issue	Basis of assurance	Conclusion
Contract revenue, margin, receivables and payables The recognition of revenue and margin on contracts in the financial statements, and the associated contract receivables and payables require management to make judgements and estimates.	In addition to receiving updates on the key contract issues at Board meetings, where management identify any significant differences in contract valuations with either clients or suppliers, the committee reviewed the status of the 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 Group is required to test goodwill for impairment annually. This test involves a value-in-use model that includes estimates of future cash forecasts, growth rates and an appropriate weighted average cost of capital.	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, 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 To carry out a review of the viability of the business and appropriateness of the going concern basis of preparation, management prepares a model based on its budget for the next three years. The model includes a number of assumptions and sensitivities.	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 and available borrowing facilities. It challenged management's assumptions and discussed the sensitivities to risks that could reasonably impact the future operating results.	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.
Exceptional items in respect of building safety During the year ended 31 December 2022, the Group accepted a future liability related to building safety obligations as a result of the Building Safety Act 2022 and the Department for Levelling Up, Housing and Communities' request that businesses involved in developing buildings requiring building safety remediation sign up to the developers' pledge.	The committee received regular updates from management in respect of the process to identify and confirm building safety liabilities. Movements recognised in the income statement are classified as exceptional items consistent with the treatment at initial recognition due to the nature and materiality of the balance.	Based on its review and discussions with the management team and external auditor, the committee concluded that the level of provision remains appropriate.

The committee believes that the significant accounting matters have been properly recorded in the Company's books and records and appropriately accounted for in the 2023 financial statements.

To support the directors in making the going concern and viability statements, the committee reviews the financial modelling scenarios and reverse stress-testing conducted by management for the going concern assessment as well as the viability assessment process undertaken in support of the long-term viability statement (see pages 96 to 97 for further information).

As a result of its review, the committee confirmed it was happy with management's processes, scenarios and modelling assumptions applied for assessing going concern and long-term viability, that the assumptions, including the severe downside analysis stress-testing, were reasonable but not unrealistic based on the experience of Covid which represented a recent example of a highly stressed scenario, and that the extreme downside and reverse stress-testing exercise had not identified concerns for any division.

Fair, balanced and understandable assessment

To enable the Board to make this statement, a formal review is embedded in the year-end process to ensure the committee and the Board as a whole have access to all the relevant information, such as the views expressed by the external auditor and any significant issues they have identified.

As part of the assessment, the committee receives a paper from the company secretary on the governance and approach taken in drafting the annual report, reviewing its content and messaging, as well as a review by and input from senior executives and the Company's advisers. When assessing the 2023 annual report, particular attention was given to the updated narrative and disclosures in the 2023 TCFD statement relating to the approach taken for our quantitative scenario analysis, key assumptions made, and the overall findings to reflect potential impacts in the short, medium and long term.

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.

Taking into account the work of the committee in relation to its review of the financial statements, the ongoing work and assurances provided by the internal audit function, and the views expressed by EY, the committee recommended and the Board confirmed that it could make the required statement that the 2023 annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for users to assess the Company's position, performance, business model and strategy.

External audit

Tenure, independence and effectiveness

An important part of the committee's role is to oversee the Company's relationship with the external auditor and to carry out an annual assessment of its independence and objectivity, taking into consideration relevant UK law, regulations, the Ethical Standard and other professional requirements.

EY was appointed as the Company's auditor from the 2021 financial year following a formal tender process conducted in 2020 and Peter McIver became the lead audit partner.

Each year, to carry out its assessment, the committee reviews and discusses the auditor's disclosure of the policies and safeguards it has in place to ensure its continued objectivity and independence. These policies and safeguards include limiting the nature of any non-audit services that the external auditor may undertake; ensuring that key members of the audit team rotate off the Company's audit after a specific period of time; and establishing an independent reporting line from the external auditor to the audit committee. Members of the committee meet with the external audit partner individually at each of the meetings held during the year. In 2023, the committee met with the new lead auditor responsible for the audit of our Construction, Infrastructure and Partnership Housing divisions. EY also provides the committee with an overall assessment of independence and confirmation that the objectivity and independence of the audit engagement partner and audit engagement team have not been compromised. As part of its assessment, EY discloses any relationships that may be considered to bear upon its objectivity and independence. Business relationships are permitted if they are in the ordinary course of business, conducted at arm's length, and are not material to either party. All contracts are subject to audit partner approval. During the year, Fit Out provided office fit out services to EY which were not material to either party.

Following its review, the committee confirmed that it was satisfied that EY continued to be independent and objective.

As part of its responsibility for assessing the ongoing effectiveness and quality of the external audit, the committee discussed the external audit plan at its meeting in August 2023 and reviewed progress against the audit plan at the meeting in December 2023, noting the scope of work to be undertaken and the key audit matters being addressed by the external auditor at the time. The committee did not ask the external auditor to look at any specific areas during the course of conducting its audit other than those already identified as part of the audit plan. Nor were any requests received from shareholders for certain matters to be covered in the audit. 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 its work to test management's assumptions and estimates in relation to key audit risk, as described in the independent auditor's report on pages 172 to 176. The committee also reviewed the results of an evaluation questionnaire on the external auditor and the audit process completed by senior members of Group and divisional finance teams. The questionnaire asked for feedback on EY in terms of the quality of the service provided to meet the audit plan; adequacy of its resources; and its communication and interaction during the process. The questionnaire also sought opinion on whether EY had demonstrated independence, objectivity and professional scepticism when obtaining, evaluating and challenging audit evidence, particularly in the key areas of focus identified in the audit plan such as those involving significant management judgements. See pages 171 to 176 for examples of matters on which EY challenged management during the course of its audit.

As a result of these reviews, the audit committee concluded that there were no issues with EY's effectiveness as auditor.

Directors' and corporate governance report continued

Audit committee report

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 2023 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. It 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 legislation and include 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, EY 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.

The committee monitors compliance with the Company's policy throughout the year and confirms that, during 2023, EY did not provide any non-audit services that required the approval of the committee and nor were there any fees for non-audit services incurred by EY during the year (see note 3 on page 196).

Reappointment of external auditor

Having regard to the considerations referred to above, the committee has satisfied itself that EY, the current external auditor with responsibility for the 2023 financial year end, remains independent and effective. As a result, following recommendation from the committee, the Board will propose the reappointment of EY as external auditor in a resolution put to shareholders at the forthcoming AGM. The committee confirms that their recommendation is free from influence by a third party, and no contractual term of the kind mentioned in Article 16(6) of the Audit Regulation has been imposed on the Company.

Subject to the continuing independence and effectiveness of EY as the external auditor or changes in legislation, the committee does not anticipate putting the audit out for tender until 2030 but will continue to monitor this annually to ensure the timing for the audit tender remains appropriate. The Company has complied with the Statutory Audit Services Order 2014 for the year under review.

Risk management and internal controls

The Board is responsible for the Group's risk management framework (see page 66) and determining the risk appetite (see pages 69 and 115). Our risk management process and system of internal controls, which comply with the requirements of the Code, were in place for the full financial year and up to the date of approval of the annual report. They are in line with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The committee supports the Board in reviewing the effectiveness of risk management, assessing and reviewing the Company's principal and emerging risks, and keeping the internal control system under review.

Risk review

In August and December 2023, the committee carried out on behalf of the Board a robust assessment of the Company's emerging and principal risks. The divisions, IT team and risk committee reviewed their risk registers to enable the committee to conduct a formal appraisal of the Group and divisional risk registers. The registers include the controls and mitigations in place for principal and emerging risks and indicators of any changes in risk level that may impact our strategy over the medium to longer term. An overview of the risk management process is described on page 66.

As part of its review, the committee conducts deep dives into key topic areas relating to our principal risks to discuss whether risk levels are still aligned with our strategy and risk appetite. In 2023, the deep dives focused on:

- the potential macroeconomic effect on future residential portfolios (principal risk B, page 71);
- the impacts of construction inflation and commodity availability (principal risk A, page 70);
- supply chain solvency given continued pressures from the economic climate (principal risk E, page 73); and
- a review of our latent defect risk, taking into consideration our estimation of the costs of applying the principles of the Building Safety Act and the developers' pledge across Partnership Housing and Urban Regeneration (principal risk I, page 76).

The committee also kept under discussion the Group's emerging risks, giving consideration to the future availability and cost of skilled labour in the industry; the advancing pace of technology; changes to people's working patterns; and ensuring we have a balanced approach to adapting to or adopting new methods of working. This is to ensure that we maintain competitive advantage, reduce our environmental impact, and achieve operational efficiencies while remaining cautious of the potential risk factors (see pages 78 and 79).

Following its assessment at the year end, the committee noted that, during the period, there had been a more stable risk profile due to more resilient than expected macro and consumer finances and eased inflationary dynamics. However, uncertainty is still prevailing, particularly in the residential market, with further progress likely to depend on the trajectory of interest rates, inflation regression, overseas conflicts ending, and electioneering.

The committee concluded that, while some uncertainty continues, the Group's risk profile remains stable, primarily because our markets are predominantly in the public and regulatory sectors, which the committee regards to be structurally secure and include commitments to critical construction and infrastructure. In addition, our mainly two-stage procurement approach helps manage the impacts of inflation, resulting in a quality pipeline and order book with an appropriate risk profile.

The committee noted that the regeneration divisions were expecting some schemes to slow but not stop. Revenue and cost assumptions in some development appraisals are challenged, which could impact the viability of some schemes.

Directors' and corporate governance report continued
Audit committee report

However, our development models are very flexible, allowing us to work through any issues with our partners, and, if necessary, seek additional gap funding and alternative sources of finance with better terms. In addition, the models enable us to flex our commercial versus residential tenure mix and further de-risk by increasing our proportion of contracting work, forming strategic joint ventures and increasing the proportion of forward-sold affordable housing. All these measures provide resilience in a difficult market.

Supply chain solvency is a threat but the effects have not been material to date, with any impacts being absorbed into day-to-day trading. The committee noted that the diversity of our supply chain provides resilience as it is widely dispersed across our businesses, regional operations, geographies, and the SME market. In addition, our close relationships with our supply chain and our positive payment practices provide a buffer of early warning and opportunity for mitigation. We have also increased our due diligence and vigilance, including increased credit checking and off-site inspections of proof of orders and stock. This has helped reduce potential impact and allows us to intervene and/or provide levels of financial support in specific circumstances.

Our continued focus on cash and our robust working capital management are reflected in our strong cash position and balance sheet, which continue to support us in long-term decision-making and selecting the right projects that match our risk appetite, particularly in any declining markets.

Following its risk review in August, the committee reported to the Board to facilitate its annual discussion of the risk appetite (see page 115).

+ Managing risk – for more information on the Group's risks

Review of internal controls

The committee reviewed the effectiveness of our system of internal controls which is described in the panel on the right. The review included assessing the relationship between the internal and external audit functions, the results of internal audit work, and the overall effectiveness of the internal audit process. The committee noted that, although many of the key components of the draft Companies (Strategic Report and Directors' Report) (Amendment) Regulations were withdrawn by the government in October 2023, the proposal for an explicit statement by directors on the effectiveness of material internal controls remains. Thus, the internal audit function will continue to test the robustness of financial internal controls, as well as expand their focus to internal controls relating to non-financial reporting, specifically relating to sustainability. In addition to internal audits, a biannual self-assessment process was launched at the half year to ensure that each division takes full ownership of its own internal controls. Any significant control deficiencies which arise from the self-assessment process are documented with a defined remediation plan and target completion date, as part of the declaration submitted by each divisional finance director. This process will prepare directors at Group level when the time comes for them to make their explicit statement on the effectiveness of the Group's internal controls.

Internal controls

Financial

- **Financial reporting system** – to ensure the effective safeguarding of assets, proper recognition of liabilities and accurate reporting of profits; a comprehensive budgeting and forecasting system, regularly reviewed and updated; a management reporting system, including monthly divisional reports to the Board; and financial reviews in the annual internal audit plan to validate the integrity of divisional management accounts.
- **Investment and capital expenditure** – detailed procedures and defined levels of authority, depending on the value and nature of the investment or contract, in relation to corporate transactions, investment, capital expenditure, significant cost commitments and asset disposals.
- **Working capital** – continual monitoring of current and forecast cash and working capital balances through a regime of daily and monthly reporting.

Operational

- **Group structure** – divisional boards, with certain key functions such as tax, treasury, internal audit, IT, pensions and insurance retained at Group level; and a system of delegated authorities to ensure that decisions are made at the appropriate level (see risk governance framework on page 66).
- **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, HR managers and heads of legal, and the Group commercial director and general counsel; training provided on health and safety, competition law, anti-bribery and corruption, and the market abuse regulation.
- **ISO accreditation** – includes 9001 (quality), 14001 (environmental), 45001 (occupational health and safety) and 27001 (information security management).
- **Corporate governance framework and Group policies** – written guidance and policies (see pages 94 and 95 for more detail on our policies) at Group and divisional levels.

Directors' and corporate governance report continued
Audit committee report

Internal audit

The internal audit function is managed by the Group head of audit and assurance, who oversees the divisional heads of internal audit and assists with risk management. The internal audit function conducts its work to align with the Internal Audit Charter, which has been drafted in accordance with the recommendations of the Institute of Internal Auditors.

Each year, an internal audit plan is developed based on principal and key risks identified in the Group and divisional risk registers together with internal audit testing, key project metrics, management requests and input from the committee. The internal audit team uses business intelligence tools and metrics to identify which projects to review for maximum effectiveness. Each individual audit includes a subjective assessment of culture.

The 2023 plan included 73 separate audits, of which c80% focused on operational activities. During 2023, 104 audits were completed, covering:

- **project activities** – operational, commercial, change management and risk (varying in scope but covering all divisions);
- **development activities** – approvals, risk and capital structuring, partner performance, funding, programme, return on capital, profit, and sales (Partnership Housing, Urban Regeneration);
- **finance reviews** – cash, debt, payroll, payment, and management accounting (selected divisions); and
- **other areas of focus** – including cyber security, value engineering, anti-bribery, off-payroll working, work winning, compliance, sustainability, payroll process, procurement, and timesheet management (selected divisions or areas).

The internal audit function has developed a formal process for assessing the effectiveness of our system of internal controls (see page 129) which uses a three-point evaluation scale ranging from 'effective' to 'ineffective'. The internal audit function, based on its audits, concluded that the internal controls system as a whole was effective for maintaining an appropriate control environment. A small number of improvements to the controls were suggested and implemented.

The internal audit function engages with, and gains meaningful insight into the Group's performance from, colleagues in the functions of health, safety and environment; IT and IT security; legal; company secretariat; finance; tax and treasury; business improvement; and HR.

The internal audit process is supplemented by a rolling programme of peer group reviews (overseen by internal audit) in Construction, Infrastructure and Partnership Housing. These reviews support the professional development of the employees who take part while providing an opportunity for sharing ideas and best practice.

At each of its meetings, the committee receives a report from the Group head of internal audit and assurance detailing audits 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. The report includes information on our policies and procedures to prevent bribery and corruption (see page 95) and our internal control procedures for preventing and detecting fraud in our business practices. While these issues are not considered to be a principal risk to the Group, if any breaches are identified, they are fully investigated, acted upon, and any significant findings brought to both the committee's and Board's attention. There continued to be no evidence of systemic bribery or corrupt activity during 2023. The committee did conclude that certain controls within Property Services required improvement, but noted that measures had already been taken to rectify them. There has been a change in Property Services' senior management team, who are reviewing the division's internal controls and operational performance. The committee noted that changes required would be introduced by the new team incrementally, and monitored during 2024.

Oversight of workforce policies and practices – whistleblowing review

Independence and effectiveness

The internal audit function is subject to validation by an independent, external organisation every five years. The latest external assessment was carried out by Blackmores (UK) Limited in 2021, with details disclosed in our 2021 annual report.

Each year, the committee assesses the effectiveness of the internal audit function. In its 2023 internal assessment, the committee:

- met with the Group head of internal audit and assurance separately without the executive directors present to discuss the effectiveness of the internal audit function. No new matters or issues were raised that had not already been reported by the executive directors;
- reviewed and assessed the internal 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 indicated poor decision-making, a need for more extensive monitoring or a need to reassess 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 2023, 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.

In 2024, the internal audit plan will follow a similar process with reviews on areas the Board considers most significant in terms of risk and/or materiality. The plan will include 91 separate audits, of which c75% involve testing the control environment, with a particular focus on:

- **selected projects** – procurement, margin, programme, risk, contingency, and change (Construction, Infrastructure, Fit Out, Partnership Housing);
- **selected developments** – capital expenditure, approvals, viability, risk, structure, funding, schedule, sales, pace, and returns (Partnership Housing, Urban Regeneration);
- **key financial controls** – cash, payroll, management accounting, and balance sheet (varying divisions and scope);
- **work winning** – selectivity, pipeline quality, bidding and bid risk management (selected construction teams); and
- **other** – supply chain, anti-bribery, build quality, ESG, customer care, Building Safety Act, cyber security and IT.

In addition to the above audit plan activities, the internal audit team will independently monitor the Group's pipeline and performance and commercial metrics on key live construction projects, conducting a significant number of additional site visits. This will provide the team with a good understanding of our performance across a broad portfolio of work.

Looking ahead

In 2024, the committee will focus on:

- the integrity of our financial reporting;
- monitoring our obligations in respect of building safety and related financial reporting; and
- risk management and internal controls, in particular, giving continuing attention to fraud prevention and detection as we continue to test the robustness of our financial internal controls.

Malcolm Cooper
Chair of the audit committee
21 February 2024

Responsible business committee report

Malcolm Cooper
Chair

Key responsibilities:

- Reviewing the Group's responsible business strategy, targets, risk exposure and performance against our Total Commitments
- Monitoring how our governance, skills and resources are used to ensure compliance with our Group policies and applicable law and regulations
- Receiving regular reports on safety performance and reviewing key issues arising and the impact of our operations on the health and wellbeing of employees
- Monitoring our performance against external responsible business rating standards

The committee's full role and responsibilities are set out in its terms of reference which are available on our website.

The quick read...

- Reviewed safety performance and wellbeing support
- Received presentations on our performance against our Total Commitments targets
- Monitored our progress to achieving our 2030 and 2045 net zero carbon targets
- Received an update on our social value initiatives

I am pleased to present the report of the responsible business committee for 2023.

Committee composition and performance evaluation

The committee's membership is shown in the table below. The committee invites the chair, chief executive and company secretary to attend each meeting. Other members of senior management are invited to attend all or part of meetings, as and when appropriate.

Members[1]	Member since[2]	Attended/ scheduled
Malcolm Cooper (chair)	**2017**	3/3
Tracey Killen[3]	**2020**	3/3

1 Biographies of members are set out on pages 104 to 105.
2 Date appointed to the former health, safety and environment committee.
3 Tracey Killen stepped down from the Board on 31 December 2023. Michael Findlay was appointed as a formal member of the committee from 1 January 2024.

Our externally facilitated Board evaluation in 2023 included an evaluation of the responsible business committee (see page 123 for further detail). It concluded that there is a strong focus on safety, sustainability and wellbeing in the business and clear sponsorship from the executive directors. However, it was agreed that the Board will review the Total Commitments to ensure that there is a clear improvement strategy and plan in place to address issues that arise, such as our recent safety performance.

Key activities during the year

Our Total Commitments provide the framework for our responsible business strategy. The committee's activities throughout the year assist the Board in its oversight of responsible business governance to ensure we are prepared for the ever-evolving regulatory requirements and that our Total Commitments remain aligned to the social and environmental issues our stakeholders consider material. The results of the materiality assessment we undertook in 2023 confirmed that we are focusing on the right issues and that our Total Commitments remain relevant (see page 21).

Safety performance

The safety of our employees, subcontractors and anyone who interacts with our activities is a key focus for discussion at every committee and Board meeting.

To continue our efforts and commitment to improving safety and achieve our ambition of zero incidents, and given the increase in our lost time incidents and RIDDORs compared with 2022, our Group 'protecting people' forum (previously the health and safety forum) is considering additional ways to strengthen our approach and enhance our learning from incidents. To ensure a positive safety culture, while our employees and subcontractors feel confident in reporting any incident, including the right to stop work if they feel unsafe, we continue to encourage and monitor the reporting of all accidents, including minor incidents and near misses, which also unfortunately increased in 2023 (see page 22).

The Board will continue to monitor the actions the divisions are taking to ensure our standards and procedures are consistently adhered to, and to support the divisions as they develop the use of new technology and leading indicators to provide greater insight into areas of increased risk.

The Group commercial director is invited to attend each committee meeting to give an update on safety performance together with a summary of any communications from the Health and Safety Executive and follow-up actions being taken by the divisions in response. The committee supports the Board by conducting deep dives into various aspects of safety, for example high potential incidents and RIDDORs, to ensure management's investigations and actions are appropriate. The committee also reviews follow-up actions to any whistleblowing reports relating to health and safety (2023: no reports).

Due to the potential disruptive impact of visiting sites unannounced, the committee decided in 2023 to invite an operational team to give a detailed presentation on its safety processes. Infrastructure's rail team presented to the committee on the challenges of mobilising multiple rail projects and the measures they are taking to maintain a positive safety culture. The presentation covered areas such as establishing a team with the right skills and competencies to deliver the projects; the safety and wellbeing of people working on the project; supply chain engagement; waste management; the use of technology and innovation to enhance safety and reduce carbon; customer relationships; and creating social value. Following the presentation and ensuing discussion with the rail team, the committee agreed that the challenges of mobilising multiple rail contracts were being appropriately addressed.

The committee has arranged a demonstration by the Construction division of its new immersive-learning safety videos using 3D headsets, which were introduced in 2023. The training has received positive feedback from the trial and is scheduled to be fully rolled out in 2024.

The protecting people forum proposed an adapted Group Health and Safety Objectives framework to the committee for approval. The revised framework has an increased focus on slips, trips and falls, which have continued to be the key causes of reportable incidents. Prior to giving its approval, the committee suggested some further amendments to the framework so that its key purpose would be to prevent complacency, which can result from an improved safety performance.

The committee believed these amendments would align the framework more closely to the Board's low-risk appetite on health and safety and support our ambition of zero incidents.

Information on the actions taken by our divisions during the year to improve safety awareness and performance can be found on page 23.

Mental health and wellbeing

Each year, the committee reviews how we are supporting our employees' mental and physical wellbeing to ensure that we maintain a nurturing work environment. In its 2023 review, the committee looked at the divisions' mental health and wellbeing strategies and activities, and the resources they are providing to support colleagues. In particular, it examined how the divisions were responding to feedback from employees; for example, Infrastructure set up workshops in personal resilience to help tackle everyday stress.

The committee concluded that the divisions were continuing to develop their strategies and provide a good variety of measures to support their employees and strengthen their resilience. The committee asked each division, in future reporting on their mental health and wellbeing strategies, to explain further how the new activities they were introducing would positively support culture, productivity and effectiveness. Detail on our activities to promote mental health and wellbeing is set out on pages 23 and 24).

+ Responsible business strategy and performance – protecting people

ESG reporting

The Group's ESG reporting manager provided the committee with key updates to our 2023 TCFD statement; an overview of voluntary frameworks finalised during the year; and a summary of our performance with ESG rating agencies.

The committee reviewed how TCFD requirements had been met in 2023, including the work undertaken to strengthen our disclosures, the approach taken in climate risk identification, management and strategy, and the steps we will be taking to meet the evolving reporting landscape for climate risks. We have included financial quantification of our climate-related risks and opportunities this year, and both the committee and the audit committee, on behalf of the Board, reviewed the approach taken, assumptions made, and findings.

As a result of its review, the committee concluded that:

- we have complied with and fully reported against the TCFD requirements, as shown on pages 80 to 91 of the strategic report;
- we will continue to refine our mandatory TCFD reporting;
- our overall ESG scores remain strong with the indices we report to, which are used by our top institutional investors, and we engage directly with investors when questionnaires are shared with us; and
- we will continue to prepare for the anticipated requirements of the International Sustainability Standards Board in 2024 and monitor other frameworks for potential future reporting requirements, so that we are ready to disclose as and when required.

Directors' and corporate governance report continued
Responsible business committee report

Climate change

The Group director of procurement and sustainability attended the committee meetings in July and December to provide an update on our activities to address climate change, improve air quality and increase biodiversity. Updates were provided on:

- our realignment of our science-based targets with a 1.5°C scenario as part of our ongoing commitment to net zero;
- the work undertaken by the divisions to ensure we meet our Scope 1, Scope 2 and operational Scope 3 2030 carbon emission targets and the additional targets we have set for 2045 (see pages 30 to 36 for detail of targets and performance);
- further investment in CarboniCa;
- waste management activities including the monetisation of waste being trialled by our Infrastructure division; and
- the UK projects we have invested in to offset residual carbon transparently and/or increase biodiversity net gain.

As a result of its review, the committee remained satisfied that we are on a trajectory to achieve our 2030 and 2045 net zero targets. It will continue to review our approach to improving the environment and the initiatives being undertaken by our divisions.

Responsible business strategy and performance – improving the environment

Supply chain

Our supply chain partners are an integral part of our business model and play a key role in delivering our strategy. During the year, the committee reviewed the work we are doing to maintain the strength of our supply chain relationships.

We have continued to:

- work with our suppliers and subcontractors to improve safety performance;
- pay our suppliers fairly and promptly;
- monitor their resilience due to the continuing uncertainty in the economic climate;
- engage and collaborate, this year more specifically to address future skills gaps in regeneration, refurbishment and retrofit to help them improve their resilience over the longer term; and
- support them with measuring their own carbon emissions.

A reassessment against ISO 20400 – Sustainable Procurement is planned during 2024 to ensure we keep meeting our regulatory requirements when engaging with our supply chain.

Our Code of Conduct, human rights and modern slavery policies extend to our supply chain, and during the year we produced and distributed a Supplier Code of Conduct setting out the standards of business conduct we expect from all our suppliers.

Responsible business strategy and performance – working together with our supply chain

Social value

Supporting our people, our supply chain and the communities in which we work is embedded in our culture and delivered through our Total Commitments (see pages 22 to 29 and 37 to 44). Information on how the Board monitors our divisions in developing their people can be found on page 118 in the nomination committee report.

At the July and December committee meetings, our Group director of procurement and sustainability reported on the Group's activities to deliver social, environmental and economic value through our projects for the benefit of the community. The decentralised nature of our business and network of offices across the UK means we are located in or near to the communities in which we work. We consider this to be a key differentiator as it allows our divisions to respond quickly and innovatively to our clients' needs for delivering social value and to support local communities. See pages 41 to 44 for further detail on our activities and how we measure the value we create.

The committee acknowledges that there are challenges to measuring social value, particularly as our clients have differing requirements. However, we will continue to monitor the work of the Group social value panel in capturing and evaluating the social value we generate as we work towards achieving our medium- and long-term targets.

Responsible business strategy and performance – developing people

Responsible business strategy and performance – enhancing communities

Looking ahead

In 2024, the committee will:

- continue to challenge the divisions to reduce the number of RIDDORs, lost time incidents, high potential incidents and all accidents;
- review the divisions' continuing actions to help our employees maintain their health and wellbeing;
- monitor the Group's ESG performance to ensure it continues to support long-term performance;
- review our performance against our Total Commitments targets, including keeping abreast of the increasing and varied demands from stakeholders in respect of ESG; and
- ensure continued improvement in the disclosure of our material responsible business impacts, both in the quality of information disclosed and across stakeholder engagement.

Malcolm Cooper
Chair of the responsible business committee
21 February 2024

Directors' remuneration report

Remuneration committee report

Jen Tippin
Chair

Composition of the committee

The remuneration committee is composed solely of independent non-executive directors: David Lowden, Kathy Quashie, and Jen Tippin who took over as chair from Tracey Killen on 7 December 2023. Details of the skills and experience of the committee members can be found in their biographies on page 105.

We have delivered a strong performance in 2023 and have continued to deliver long-term value for our stakeholders. Our remuneration policy has operated as intended: driving high performance linked to clearly defined goals that are fundamental to our strategy.

On behalf of the committee, it is my pleasure to present my first remuneration report for the year ended 31 December 2023. This report sets out how the Group pays its directors, decisions made on their pay and how much they have received in relation to 2023.

As part of the annual evaluation of the Board, an evaluation of the committee was conducted. This concluded that the committee was continuing to work effectively. It was agreed that the committee would extend its review of wider workforce remuneration to include additional data on recruitment, retention, attrition and engagement and would seek to develop a structured plan for engaging with shareholders and proxy agencies going forward. We will ensure that these actions are addressed in the work of the committee in 2024.

In this report:

- Remuneration updates for executive directors in 2023 (pages 137, 138 and 140)
- Our remuneration principles (page 136)
- Remuneration committee governance (page 136)
- Remuneration policy 2023 (pages 143 to 152)
- Directors' annual remuneration report (pages 153 to 156)
- Implementation of remuneration policy in the following financial year (pages 161 and 162)

This report complies with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the 2018 UK Corporate Governance Code (the Code), the Companies (Miscellaneous Reporting) Regulations 2018, the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, and the Listing Rules.

The quick read...

- Consulted with shareholders regarding the 2023 remuneration policy
- Monitored remuneration market practices, including the appropriateness of including linkages to ESG measures
- Approved the 2023 and 2024 remuneration for the Board chair, executive directors and senior management team
- Approved the remuneration arrangements for Kelly Gangotra who will join the Group as finance director in 2024 to replace Steve Crummett when he retires from the Company on 31 December 2024
- Reviewed wider workforce remuneration and the alignment of incentives and awards with the Group's purpose, culture and values
- Set targets for the 2024 annual bonus and Long-Term Incentive Plan (LTIP) and reviewed performance against targets for the 2023 annual bonus and 2021 LTIP awards

Directors' remuneration report continued
Remuneration committee report

Remuneration objectives and key responsibilities

As a committee, we continue to drive a strong culture of pay in line with performance and shareholder experience. We are committed to being open and transparent in our approach to executive remuneration and 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 available only through the achievement of stretching performance targets based on measures that the committee believes reflect the interests of shareholders and wider stakeholders.

Our remuneration principles align with the requirements of the Code. They apply across the Group and are designed to drive the behaviours and results to support our strategy. They seek to ensure that remuneration:

- helps retain and motivate executive directors of the calibre required to deliver the Group's strategy;
- aligns reward outcomes and value created for shareholders;
- is appropriately competitive in the marketplace;
- is clear and simple to enable transparency for all stakeholders; and
- rewards value creation over the long term.

The extent of their responsibilities means executive directors are well paid, but the policy is designed, among other things, to ensure that they are paid appropriately in line with performance and market. Reference points such as the performance of the business during the financial year in question and over the longer term, the ratio of the chief executive's pay to the median pay for all employees, the policy for wider workforce remuneration and the experience of our wider stakeholders are important to us, in addition to the use of external benchmarking data when considering executive pay levels.

Our key responsibilities include:

- ensuring our remuneration policy is designed to align with the Group's purpose, values and culture and to encourage the effective stewardship that is vital to delivering our strategy;
- setting the remuneration of the Board chair, executive directors and Group management team;
- approving the design of all share incentive plans for approval by the Board and, where required, by shareholders;
- ensuring our targets for remuneration are appropriately stretching and aligned to the Group's strategy;
- reviewing wider workforce remuneration and policies and the alignment of incentives and awards with culture, and taking these into consideration when setting the remuneration policy or determining remuneration for the executive directors; and
- ensuring the policy promotes long-term shareholdings by executive directors by ensuring share awards granted are released on a phased basis and subject to a total vesting and holding period of five years.

The committee's full role and responsibilities are set out in its terms of reference which were last updated in February 2023 and are available on our website.

Executive remuneration in context

The Group has delivered a strong set of results for 2023, despite the challenging macro environment, which reflects the quality of the work we have won and our operational delivery.

	2023	2022	2021	2020	Percentage change 2023 vs 2022
Revenue	**£4,117.7m**	£3,612.2m	£3,212.8m	£3,034.0m	14%
Profit before tax (PBT) adjusted*	**£144.6m**	£136.2m	£127.7m	£63.9m	6%
Average daily net cash	**£281.7m**	£256.3m	£291.4m	£180.7m	10%
Earnings per share (EPS)*	**247.7p**	237.9p	226.0p	108.6p	4%
Share price (end of year)	**£22.15**	£15.30	£25.20	£15.32	45%

* See note 28 to the consolidated financial statements for alternative performance definitions and reconciliations.

We have been able to provide further support to some of the vulnerable communities in which we operate and have made long-term investments to address the impact of climate change. We have continued to invest in areas to drive growth and our employees have continued to work hard with the support of our subcontractors and supply chain to deliver quality projects for our clients. Our divisions continue to encourage innovation in their teams and to support their development and resilience by providing a wide range of training programmes and a good range of benefits to help people manage their mental, physical and financial wellbeing.

The strength of our balance sheet and cash generation have remained high priorities for the Board, enabling us to continue to do the right thing for all stakeholders and ensure that we select the right construction contracts and invest in long-term regeneration schemes that will secure future earnings.

Our share price performed strongly over the year, rising by c45%, while our relative total shareholder return (TSR) was comfortably in the top quartile compared to the constituents of the FTSE 250 Index (outperforming median by c44%) and around upper quartile among a group of relevant construction and housebuilding sector peers[1]. Performance is similarly strong over the longer term, with the relative TSR element of the 2021 Long-Term Incentive Plan (LTIP) (based on outperformance of the FTSE 250) vesting in full, and the TSR element of other outstanding LTIP cycles also tracking at or close to full vesting at the end of 2023.

Our relative financial performance has continued to be upper quartile. Considering three important financial metrics – revenue, PBT and EPS growth – each over one-, two- and three-year periods to the end of 2023 (based on broker consensus where relevant), we have averaged around 74th percentile against sector peers.

We have made notable improvements in KPIs, underpinning priorities such as 'securing long-term workstreams' and 'maintaining financial strength'. Across our divisions, revenue and operating profit growth in both Construction and Infrastructure has been strong, and we have upgraded our medium-term target for Fit Out, helping to more than offset challenging market conditions across Property Services and Partnership Housing. We recognise there has been weaker performance in Property Services but have taken significant management actions to correct this position, including the nil payment of annual performance bonuses in this division.

Against this backdrop, the committee continues to strive to ensure that executive remuneration remains aligned to our strategy, our external environment and the UK corporate governance requirements.

ESG metrics

As outlined in the 2022 remuneration report, we remain of the opinion that ESG is already such an integral part of the Group's day-to-day operations that it does not warrant further incentivisation or extraordinary reward at this time. As a Group, we continue to hold ourselves to an incredibly high standard on ESG through our ambitious Total Commitments and we remain a leader in our sector on environmental matters. For example, we continue to achieve a AAA rating under MSCI (AAA since 2021) for our ESG performance and have reduced our Scope 1, Scope 2 and operational Scope 3 carbon emissions by 39% since 2019 against our target of a 60% reduction by 2030 (see page 30 and pages 20 to 44 for further information).

We are also keen to retain the simplicity of our current remuneration arrangements, as we believe this to be one of their greatest strengths. We have set ourselves clear criteria for reviewing this decision and there is sufficient flexibility in the policy wording to enable us to introduce ESG metrics in the future, should we deem it necessary.

Wider workforce remuneration and engagement

Our divisions pay the real living wage or above and two divisions are accredited Living Wage Foundation employers. The real living wage increases of c10% as set out in September 2023 are being applied across the Group ahead of the April 2024 deadline. The average salary increase across the divisions for 2024 is 5% which, as in 2023, is higher than the increase applied to executive directors (see 2024 remuneration on pages 138 and 139). In 2023, 84% of employees received a pay rise and 68% of employees received a bonus, with an average bonus paid of £9,804.

My predecessor, together with our company secretary, met with our HR forum this year to discuss wider workforce remuneration. The forum explained that remuneration was not generally being raised as an issue by employees and confirmed that the Group's strong performance, culture and broader offerings such as flexible working, career development and the good range of benefits continue to help the divisions to defend against increased salaries and poaching from peers. The divisions are looking at how they can improve the way they communicate and engage with employees around remuneration and the value of the benefits available from working with the Group.

The Group's decentralised nature and differing approaches to remuneration in each division make direct engagement with employees on the Company's remuneration arrangements trickier. Therefore, as part of this meeting, Tracey Killen and the company secretary took the forum through a presentation which explained the role of the remuneration committee and the structure of executive remuneration. The presentation illustrated how executive remuneration aligns with the Group's strategy and values and discussed the similarities and differences in how the executive directors are paid compared to the rest of the Group. This presentation helped to provide our HR leads with a better understanding of the role of the committee and the Group's remuneration principles and structure.

1 Balfour Beatty, Barratt Developments, Bellway, Costain, Keller, Kier, Persimmon, Redrow, Taylor Wimpey and Vistry.

Directors' remuneration report continued
Remuneration committee report

2023 remuneration outcomes

Last year's remuneration policy and remuneration report were approved at our 2023 AGM with an overall vote in favour of 78% and 96% respectively. The committee was naturally disappointed with the vote in respect of the remuneration policy and, in line with the requirements of the UK Corporate Governance Code, reached out to major shareholders to discuss their concerns. A summary of the feedback received was set out in a market announcement dated 4 September 2023 and the issues raised have been addressed in this report. Of particular note has been the analysis the committee has conducted around the performance of the business over the last year in relation to considering whether to implement the higher variable pay opportunities under the remuneration policy, as requested by several shareholders following the policy vote. The analysis is detailed below.

Throughout the year, the directors continued to focus on ensuring that the business is in the best position financially to manage the economic backdrop while being able to take advantage of opportunities as and when they arise. Reflecting strong business results, the executive directors will each receive a bonus of 119% of salary, of which 30% will be deferred in shares for three years. LTIP awards granted in 2021, which vest on three-year performance to 31 December 2023 (two thirds on EPS and one third on relative TSR), will vest at 100%. The committee satisfied itself that these outcomes reflect the excellent underlying performance of the business over the relevant periods and applied no discretion in their assessment.

The committee considered the vesting value of the 2021 LTIP awards in relation to the guidance from major shareholders around windfall gains and reviewed several perspectives, including share price movements and the Company's strong relative performance, in its deliberations. The 2021 LTIP awards were granted on 5 March 2021 using a share price of £17.17. The fourth quarter 2023 average share price used to calculate the single figure of remuneration (see page 153) was £20.22. The committee concluded that the gain through share price appreciation is not indicative of any windfall gains and therefore has not exercised any discretion in respect of the achieved outcomes. The committee will reassess this position following the actual vest date in March 2024, taking into account the share price at that time.

2024 remuneration

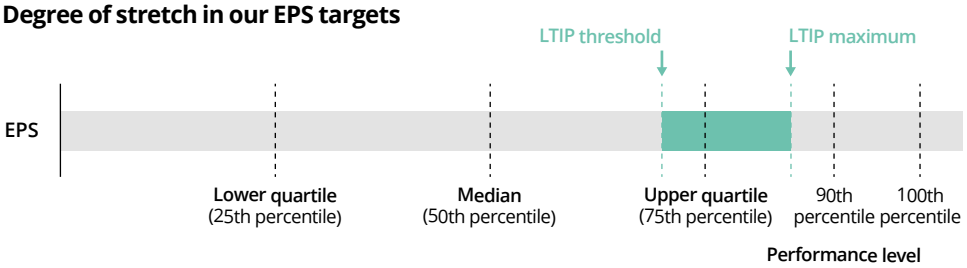
At last year's AGM, the committee sought approval to introduce additional headroom into the remuneration policy to allow us to increase the maximum annual bonus and LTIP opportunities over the life of the policy where this was warranted by business circumstances, for example to reward continued significant growth. Taking into account the strong financial, strategic and share price performance of the Company over 2023 (as highlighted on pages 136 and 137), the committee consulted with shareholders late last year about its intention to use this headroom. Specifically, we proposed that we would increase the:

- 2024 annual bonus opportunity for both executive directors from 125% to 150% of salary;
- chief executive's 2024 LTIP award from 150% to 200% of salary (with no change to the finance director's award at 150%); and
- mandatory bonus deferral requirement from 30% to 33% for any bonus earned from the 2024 cycle.

In deciding on using some of the additional incentive headroom embedded in the current remuneration policy, the committee was further satisfied by analysis which reviewed the historical relationship between pay and performance, indicating the overall effectiveness of our pay structure in rewarding value delivered to shareholders compared to sector comparators. This analysis indicated that John Morgan's aggregate remuneration over the past five full financial years has been just above median, while financial performance and share price growth have been in the top quartile. Over the past five full financial years, the Group is one of only two sector peers to have delivered positive returns to shareholders – with the chief executive delivering c£17 of incremental market value for every £1 of remuneration vs a sector median of (£53). We believe this is strong evidence of remuneration outcomes aligning with shareholder experience and the performance of the business.

At the end of 2023, we consulted with shareholders, the Investment Association (IA) and Institutional Shareholder Services (ISS) on these proposals. Overall, investors were supportive, with a number wanting to ensure that the committee sets sufficiently stretching targets to reflect the additional opportunity available under the bonus (for both executive directors) and LTIP (for the chief executive). To satisfy itself, the committee back-tested its approach to target setting, to assess if the EPS performance ranges set for recent LTIP cycles (ending 2020, 2021 and 2022) were sufficiently stretching. The chart below summarises this analysis, which determines the equivalent percentile rank of the LTIP EPS performance range in the context of actual outcomes delivered over the relevant three-year period by FTSE 250 companies. This analysis indicates that the LTIP EPS range has represented stretching performance, being on average equivalent to 70th–80th percentile vs actual FTSE 250 outcomes, particularly in the context of award opportunities that have been below FTSE norms. The committee will therefore maintain its approach of setting targets that are stretching in the context of internal plans as well as external market conditions, but also appropriate in the context of the award opportunities on offer.

Degree of stretch in our EPS targets



On average over the last three LTIP cycles, our EPS threshold represented c70th percentile (i.e. it was achieved by only 30% of FTSE 250 companies). The maximum was c80th percentile.

Directors' remuneration report continued
Remuneration committee report

In setting the remuneration for 2024 for the executive directors and the GMT, we considered the proposed changes within the context of feedback from investors together with the remuneration offered to employees as a whole, focusing on the proposed salary increases and potential bonus payments across the Group. The approach to remuneration for the current executive directors from 1 January 2024 is summarised in the table below.

Element of remuneration	Chief executive, John Morgan	Finance director, Steve Crummett
Salary increase	4%	4%
Annual bonus opportunity	150% of salary	150% of salary
Bonus deferral	33%	33%
LTIP award	200% of salary	150% of salary

As noted above, the salary increases for both the chief executive and finance director are below the average increase awarded across the Group's wider workforce. In our 2022 report, together with the consultation that we undertook in 2023 for the remuneration policy, we identified the chief executive's salary as being materially below market levels, and while we have no plans for any material adjustments in the near term, we reiterated our messaging to investors as part of the recent consultation that we may need to make a significant uplift to the chief executive's salary in the medium to longer term to facilitate future succession. The committee is satisfied that the increase in the remuneration levels, following the implementation in 2024 of the larger incentive opportunities available under the policy, is justified given the performance of the Company and the market positioning of the packages (which is around lower quartile for the chief executive and around median for the finance director, vs comparators of (i) similar size and (ii) similar sector).

The bonus targets for 2024 will be based on adjusted profit before tax* (PBTA*) for consistency with full-year 2023 and simplicity. For 2024, as in 2023, the trigger point for the annual bonus will be 90% of budgeted PBTA* and a maximum bonus will require 110% of budgeted PBTA*. Full details of the targets will be disclosed in the 2024 remuneration report. Of any bonus earned, 33% will be deferred in nil-cost share options for three years, matching the level of mandatory deferral at similar-sized companies and recognising the increase in the bonus opportunity.

The LTIP will again be based 67% on EPS and 33% on relative TSR, and any shares that vest will be subject to a further two-year holding period post-vesting. In respect of the EPS metric, threshold vesting will be for 2026 EPS of 272p and full vesting for 336p. This range has been determined through consideration of a number of internal and external reference points, including the strong performance in 2023, broker forecasts for the next three years, and typical growth rates in our sector. At the time of setting the EPS target (in early 2024), market consensus for 2026 EPS was at a level which would warrant vesting of only 20% of the EPS component, with full vesting requiring 20% outperformance of consensus, providing further comfort to the committee that the performance range set for the 2024 LTIP is particularly stretching.

In respect of the LTIP TSR metric, full vesting will require outperformance of 10% per year vs the constituents of the FTSE 250 Index (excluding investment trusts), with threshold vesting at median TSR. As a committee, we believe that the stretch EPS and TSR targets are broadly equivalent to at least an upper-quartile level of performance. Committee discretion will be used at the time of vest, if necessary, to take into account any windfall gains which arise over the vesting period.

Board changes

In December 2023, the Board announced Steve Crummett's intention to retire as finance director with effect from 31 December 2024. Steve has seen the business through a period of significant growth, and I know how much the Board and wider Company have valued his experience and guidance. Given his continued active service over the coming financial year, and in line with the remuneration policy, Steve will be eligible to receive a 2024 annual bonus, and will receive an LTIP award in the first quarter. A further announcement regarding the terms of Steve's departure will be made in due course.

It was also announced that, following a rigorous internal and external search and selection process, Kelly Gangotra will join as Group finance director around the third quarter of 2024 to enable a period of transition before Steve retires. Details of Kelly's remuneration are as follows:

Basic salary:	£490,475 per annum
Annual bonus:	Up to 150% of salary (pro-rated in 2024 to reflect the proportion of the year served)
LTIP:	Annual award of 150% of salary plus an additional one-off award of 50% of salary in 2024 to compensate for existing long-term incentives held and forfeited on appointment
Pension:	6% of salary
Benefits:	In line with other executives, namely travel allowance, medical benefits, ill health income protection, employee assistance programme and life assurance

Reflecting Kelly's track record and significant experience in the construction and property industry, the committee agreed that her remuneration package, including her base salary, should be fully aligned with that of Steve Crummett from the outset. Kelly's normal LTIP opportunity will be 150% of salary, with a one-off additional 50% of salary to be awarded in 2024 to compensate for awards forfeited from her previous employer.

Looking ahead

The committee will continue to monitor corporate governance and market practice developments throughout the 2024 AGM season and will consider the appropriateness of any emerging trends for the Group.

In conclusion, the committee believes that, overall, we have maintained a balanced and considered outcome in respect of remuneration with a clear link between performance, shareholder experience and reward. The remuneration outcomes, as outlined throughout the report, clearly reflect the factors detailed in Provision 40 of the UK Corporate Governance Code (see page 152 for further information).

I hope that we can rely on your vote in support of our approach to remuneration at our AGM in 2024. If you would like to discuss any aspect of this report, I would be happy to hear from you. You can contact me through our company secretary.

Jen Tippin
Chair of the remuneration committee
21 February 2024

2023 remuneration at a glance

This at-a-glance summary sets out the total remuneration paid to our executive directors in 2023.

Fixed pay for 2023

Base salary

Pension

Bonus

See page 153

Annual bonus for 2023

£144.6m

Record PBTA* achieved

Up 6%

on 2022

See page 153

LTIP award vesting in 2023

21.5%

Outperformance of the TSR comparator group

247.7p

EPS* achieved

See page 154

2023 single figure for total remuneration

	2023 total £000	2022 total £000
Executive directors		
John Morgan	**2,325**	2,207
Steve Crummett	**1,859**	1,764
Non-executive directors		
Michael Findlay	**199**	189
Malcolm Cooper	**75**	71
David Lowden	**65**	61
Jen Tippin	**55**	51
Kathy Quashie	**54**	51
Tracey Killen[1]	**64**	61

1 Tracey Killen stepped down from the remuneration committee chair on 7 December 2023 and from the Board on 31 December 2023.

Key remuneration outcomes for 2023

	Measure	Weighting	% of the opportunity achieved
Annual bonus	PBTA*	100%	95.5%
LTIP	TSR	33%	100%
	EPS	67%	100%

2024 remuneration

The table below shows how we intend to operate the remuneration policy for the executive directors in 2024. The table sets out how each element of remuneration links to strategy and the performance and retention periods for each.

	Element	Link to strategy	Maximum	2024	2025	2026	2027	2028	2029
Fixed pay	Salary	Supports the attraction and retention of the best talent	Any increases are generally in line with those for the workforce as a whole	Chief executive c£615k (+4%), finance director c£490k (+4%)					
	Benefits	Market-competitive and cost-effective benefits package to support the directors in performing their duties effectively	Market-competitive	Benefits provided					
	Pension	Provides a post-retirement benefit in a way that manages the overall cost to the Company	6% of basic salary	Pension paid					
Variable pay	Annual bonus	Incentivises delivery of financial and strategic targets Focuses on key financial metrics and the individual's contribution to the Group's performance	150% of salary with 33% of any bonus earned deferred	Targets for annual bonus set at start of the year	Cash element of bonus paid (up to 67% of bonus earned)			Nil-cost options vest (three-year deferral)	
					Nil-cost options issued (at least 33% of bonus earned)				
	LTIP	Rewards consistent long-term performance, in line with the Group's strategy Provides focus on delivering superior long-term returns to shareholders	200% of salary, chief executive 150% of salary, finance director	LTIP awards granted in March			LTIP performance conditions tested Vested shares subject to mandatory holding period		Mandatory two-year 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 in 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.	Up to 6% of salary employer contribution to the LifeSight master trust ('LifeSight'), consistent with the wider workforce rate.	Annual bonus plan linked 100% to Group performance. 33% 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 bonus plan linked 100% to divisional or Group performance.	The executive directors and Group management team are required to hold shares equivalent to 200% and 100% of salary respectively.
Senior management				Divisional or Group annual cash bonus plan linked to both business and personal performance.	
Wider workforce	Basic salary levels are set in line with market requirements or subject to industry-wide working rule agreements where applicable. Five of our businesses pay employees the real living wage or above. Construction and Property Services are Living Wage Foundation accredited employers.	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 LifeSight 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 Share Option Plan (SOP). 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') which was approved by shareholders at the 2023 AGM. The policy is determined by the remuneration committee and is not subject to audit by the external auditor.

The policy is designed to be straightforward and to encourage the effective stewardship that is vital to 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 that executive directors are well paid, but the policy is designed to ensure that they are not overpaid.

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 typically reviewed annually or, if appropriate, in the event of a change in an individual's position or responsibilities. Salary levels are set with 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 consider 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. Increases will generally be in line with those awarded to the wider workforce, although the committee maintains the ability to grant larger increases where appropriate.	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 ▪ relocation expenses and legal fees in the case of a new hire ▪ travel, fuel, subsistence and accommodation as necessary ▪ 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.	Not applicable

Directors' remuneration report continued
Remuneration policy

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 LifeSight master trust defined contribution pension scheme ('LifeSight'), or to personal pension arrangements at the request of the individual. The Company may also consider a cash alternative (e.g. where a director has reached HMRC's lifetime or annual allowance limit).	Employer contributions for current and new executive directors will be kept aligned with the rate offered to the majority of employees (currently 6% of salary). Directors who are members of LifeSight (in line with other employees) 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	To reward the achievement of demanding annual performance metrics	Performance measures and targets are generally set annually by the committee. At the end of the year, the committee determines the extent to which targets have been achieved. A maximum of 70% of any bonus earned is payable in cash with the remainder normally deferred for at least three years and satisfied in Company shares; from 2024, 33% of any bonus earned will be deferred. To ensure fairness to both shareholders and participants, the committee has discretion to: (i) 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) adjust performance measures, targets and/or weightings during the performance period under exceptional circumstances. 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. Awards under the annual bonus are subject to malus and clawback provisions, further details of which are set out on page 150.	The maximum opportunity is 150% of base salary. Target performance will typically deliver up to 50% of maximum bonus, with threshold performance typically paying up to 15% of maximum bonus. Dividends accrue on deferred bonus shares during the deferral period and may be paid in shares at the time of release.	All or a majority of the bonus will be based on 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 the Group's and management's performance.

Directors' remuneration report continued
Remuneration policy

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
2023 Long-Term Incentive Plan (LTIP)	To drive sustained long-term performance that supports the creation of shareholder value	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. Award levels, performance conditions and targets are generally reviewed before each award cycle to ensure they remain appropriate. 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. A proportion of net LTIP shares vesting may, at the discretion of the committee, be subject to a holding period following the end of the vesting period. The committee's current intention is that all awards will be required to be held for an additional two-year period post-vesting, creating a total of five years between the award being granted and the first opportunity to sell. To ensure fairness to both shareholders and participants, the committee has discretion to: (i) 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) adjust performance measures, targets and/or weightings during the performance period under exceptional circumstances. Any use of committee discretion with respect to waiving or modifying performance conditions will be disclosed in the relevant annual report. Awards under the LTIP are subject to malus and clawback provisions, further details of which are set out on page 150.	200% of base salary	Vesting of LTIP awards is subject to performance against relevant metrics measured over a period of at least three financial years. The committee will typically select performance measures ahead of each cycle to ensure that they continue to be linked to the delivery of the Company strategy. Awards are subject to performance conditions based on the Company's EPS and on relative TSR compared to a group of UK-listed peers. The committee has discretion to introduce additional performance conditions (to complement EPS and TSR) for up to one third of future awards. For every performance measure, no more than 25% of the available award will vest for achieving threshold performance, increasing to 100% vesting for achievement of stretching performance targets.

Directors' remuneration report continued
Remuneration policy

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 a discount of up to 20%. 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	To attract, retain and reward talented individuals	Non-executive directors typically 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 although it is expected that any increase in fees will usually be broadly aligned with salary increases granted to the wider workforce at the time. The Company's articles of association ('the Articles') provide that the total aggregate remuneration paid to the chair of the Company and non-executive directors will be determined by the Board within the limits set by shareholders and detailed in the Company's Articles.	Not applicable
Share ownership guidelines	To provide close alignment between the experience and longer-term interests of executive directors and shareholders	Executive directors are expected to build and maintain shareholdings at a minimum specified level (currently 200% of basic salary). Until this threshold is achieved, there is a requirement for executive directors to retain no less than 50% of the net of tax value of vested incentive awards.	Not applicable	Not applicable

Directors' remuneration report continued
Remuneration policy

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Post-employment shareholders	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 has established mechanisms to enforce this requirement. 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: a) their shareholding at the time of leaving the business (excluding individually purchased shares); and b) 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: a) their shareholding at the time of leaving the business (excluding individually purchased shares); and b) 100% of basic salary (this being half of the current in-post shareholding guideline).	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.

Directors' remuneration report continued
Remuneration policy

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 commencement date	Month/year initial three-year term was extended	Month/year second three-year term was extended
Michael Findlay	1 October 2016	October 2019	October 2022
Malcolm Cooper	9 November 2015	November 2018	November 2021
David Lowden	10 September 2018	September 2021	
Jen Tippin	1 March 2020	March 2023	
Kathy Quashie	1 June 2021		
Sharon Fennessy	1 January 2024		

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.

For 'good leavers', 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 unvested awards will not be forfeited on cessation of employment and instead will vest on the normal vesting date (save in the event of the death of a participant, where vesting will occur as soon as reasonably practicable). In exceptional circumstances, the committee may decide that the participant's awards will vest early on the date of cessation of employment. In all cases, the extent to which the awards will vest will depend 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).

Directors' remuneration report continued
Remuneration policy

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; in the event of death of a participant, any holding period would cease to apply.

In the event of a takeover or other corporate event, the committee will determine the number of LTIP shares in respect of which an award vests based on the extent to which it determines that the performance conditions have been satisfied at the relevant time, taking into account the shortened performance period and such other factors as the committee considers relevant. Awards will be time pro-rated to reflect the earlier vesting unless the committee determines 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.

Remuneration on recruitment

The committee considers the need to attract, retain and motivate the best person for each position, without paying more than is necessary.

External appointments

For external appointments, the committee would seek to align the ongoing 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, the 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. Alternatively, the committee may approve a higher basic annual salary for a newly appointed director than the outgoing director received where it considers it necessary in order to recruit an individual of sufficient calibre for the role and/or where it is known that the outgoing director's remuneration has fallen behind appropriate market levels.	
Pension	New executive directors will receive Company contributions or a cash alternative in line with that offered to the majority of employees.	
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 make an award in cash or shares 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. The committee may set different performance conditions and/or targets for an executive director who has joined part-way through the financial year.	150% 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. The committee may set different award levels, performance conditions and/or targets for an executive director who has joined part-way through the financial year.	200% 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.

Directors' remuneration report continued
Remuneration policy

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. The LTIP will be used as the basis for granting such replacement awards, to the extent possible under its rules; such awards may be granted in excess of the ongoing policy limit outlined in the table on page 145. Awards may be granted outside of the LTIP if necessary, as permitted under the Listing Rules.

Internal promotion

In cases of appointing a new executive director by way of internal promotion, the committee will act in a manner consistent with the policy for external appointees detailed on page 149 and the provisions for existing arrangements, as set out on page 147, will apply.

Shareholders will be informed of the remuneration package and all additional payments to a newly appointed executive director in the annual report following their appointment.

Non-executive directors

For the appointment of a new non-executive director, the fee arrangement will 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 LifeSight master trust or the 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; holiday plus scheme (an option to purchase some additional holiday); life insurance provision; 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 (e.g. 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.

Directors' remuneration report continued
Remuneration policy

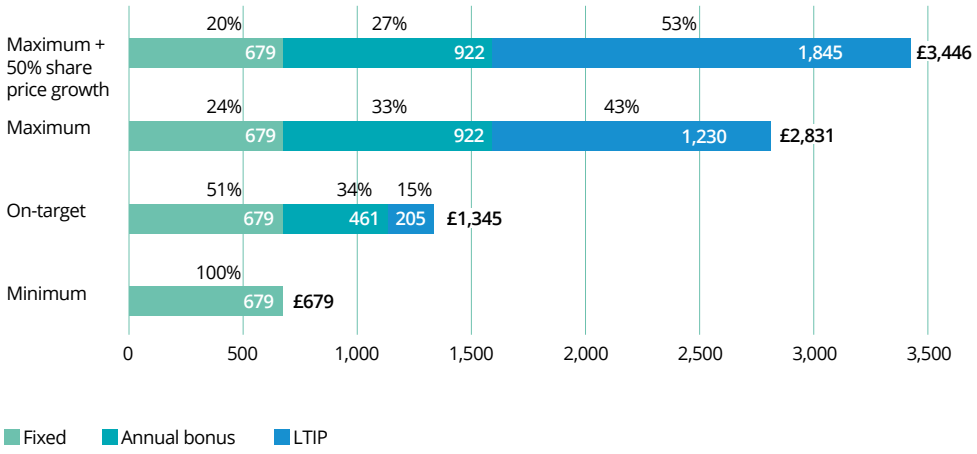
Remuneration scenarios for the executive directors

The charts below provide an indication of the level of remuneration that would be received by each executive director under the proposed 2024 implementation of the policy in the following three assumed performance scenarios:

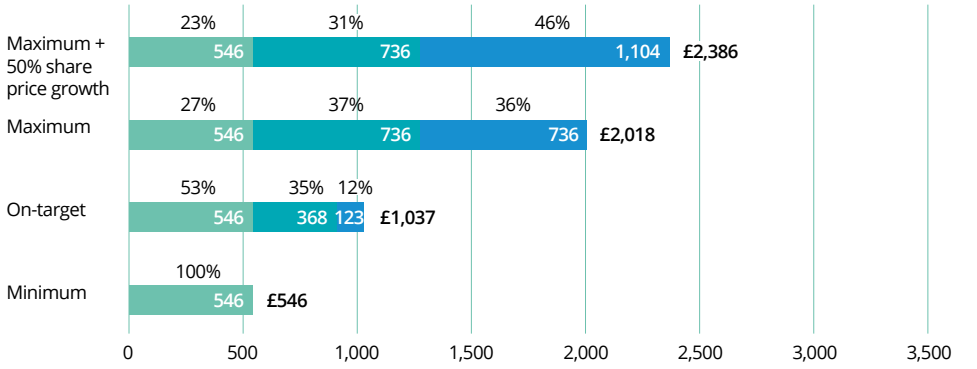
Below threshold performance	Fixed elements of remuneration only – base salary, benefits and pension
On-target performance	Assumes 50% payout under the annual bonus (75% of salary) Assumes 16.7% payout under the LTIP (aligned with the weighted average threshold payout across the EPS (12.5%) and TSR (25%) elements)
Maximum performance[1]	Assumes 100% payout under the annual bonus (150% of salary) Assumes 100% payout under the LTIP (200% of salary chief executive, 150% of salary finance director)

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.

Chief executive
(£000)



Finance director
(£000)



Note:

- Base salary levels are as at 1 January 2024.
- The value of benefits has been estimated based on amounts received in respect of 2023.
- The value of pension receivable is the equivalent of 6% of base salary.
- The finance director chart is applicable for both Steve Crummett and Kelly Gangotra, noting that Kelly's ongoing remuneration packages (i.e. excluding the one-off compensatory LTIP award) will be aligned with that of her predecessor from the outset.

Directors' remuneration report continued
Remuneration policy

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 criteria are fulfilled	Example
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The committee provides open and transparent disclosures to shareholders, employees and other stakeholders with regard to executive remuneration arrangements. The annual bonus plan, deferred bonus plan, LTIP and SOP are 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. Although the committee does not consult the wider employee population explicitly on remuneration policy, the Board as a whole engages regularly with employees on a range of topics and feedback is reflected in its discussions and decisions.	The annual bonus plan is based entirely on PBTA* which is published in the Group's audited 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 LTIP). No complex structures are used in our variable pay plans.	The annual bonus is based on one metric (PBTA*) which is easy to measure and understand.
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 several considerations, including 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 151 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 Group 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 Group's strategy. The committee retains discretion to override formulaic outcomes to ensure that payments under the variable incentives are appropriate and reflective of overall performance.	To trigger any element of the annual bonus, 90% of budget must be achieved and that will only trigger, at most, a 15% payment.
Alignment to culture Incentive schemes should drive behaviours consistent with the Company's 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

This section provides details of how the remuneration policy was implemented during the financial year ended 31 December 2023 and planned implementation in 2024. The information provided in this section of the remuneration report which is subject to audit has been highlighted.

Single total figures of remuneration (audited)

Executive directors

	Fixed pay				Variable pay			
	Fees/basic salary £000	Benefits £000	Pension contributions £000	Total fixed pay £000	Annual bonuses £000	Value of long-term incentives £000	Total variable pay £000	Total remuneration £000
John Morgan								
2023	**591**	**27**	**35**	**653**	**706**	**966**	**1,672**	**2,325**
2022	563	27	56	647	704	856	1,560	2,207
Steve Crummett								
2023	**472**	**26**	**28**	**525**	**563**	**771**	**1,333**	**1,859**
2022	449	26	45	520	561	683	1,244	1,764

Notes:

- Benefits relate to travel allowance, medical benefits, ill health income protection, employee assistance programme and life assurance.
- John Morgan's and Steve Crummett's pension contributions were reduced to 6% of salary in line with those of the wider workforce from 1 January 2023.
- As the market price on the date of vesting for the 2021 awards is currently unknown, the LTIP value shown is estimated using the average market value over the last quarter of 2023 of £20.22. The 2022 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 2022, are valued using the mid-market closing price on 1 March 2023, the date prior to the date of vesting (2 March 2023), of £17.92. (The mid-market closing share price on 2 March 2023 was £17.86).

Annual cash bonus outturn (audited)

Annual bonus figures represent the full amount earned for 2023. Of this amount, 30% will be deferred in nil-cost share options for three years. The table below shows performance against PBTA* targets for 2023 representing 100% of the annual bonus potential.

	Threshold £m (15% payout)	Target £m (50% payout)	Maximum £m (100% payout)	Actual performance £m	Payout, percentage of maximum
Group PBTA* full-year 2023	119.3	132.5	145.8	144.6	**95.5%**

Directors' remuneration report continued
Annual report on remuneration

2014 LTIP – 2021 award outturn (audited)

LTIP awards granted in 2021 are due to vest on 5 March 2024. As set out in the table below, 100% of these awards are expected to vest.

Performance condition	Weighting	Threshold (EPS: 12.5% vest, TSR: 25% vest)	Stretch (100% vest)	Actual performance	Percentage vesting
Adjusted* EPS in full-year 2023	67%	197.7p	239.5p	247.7p	100%
Relative TSR (vs FTSE 250 excluding investment trusts)	33%	Median	10% p.a. outperformance of median	21.5% p.a. outperformance	100%
Total vesting					**100%**

As the market price on the date of vesting is currently unknown, the values shown in the single-figure table are based on the average market value over the last quarter of 2023 of £20.22, a 15% increase on the share price at the date of grant of £17.17. Accordingly, 15% of the 'value of long-term incentives' figures shown in the single-figure table on page 153 is a result of share price appreciation, amounting to c£145,680 and c£116,162 for John Morgan and Steve Crummett respectively. The committee's view is that the gain through share price appreciation is not indicative of any windfall gains and therefore it has not exercised any discretion in respect of the achieved outcomes. The value of 2023 long-term incentives in the single-figure table on page 153 does not include the value of any dividend equivalent shares that may be due for the 2021 awards on the date of vesting.

The net awards received (after the deduction of tax and National Insurance) will be subject to a two-year holding period in which the director will not be able to sell the shares but will be entitled to receive dividends and vote on the shares. The shares will be held in a share account for the executive director and 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	
	2023	2022	**2023**	2022	**2023**	2022
Michael Findlay	**199**	189	–	–	**199**	189
Malcolm Cooper	**75**	71	–	–	**75**	71
David Lowden	**65**	61	–	–	**65**	61
Jen Tippin	**55**	51	–	–	**55**	51
Kathy Quashie	**54**	51	–	–	**54**	51
Tracey Killen[2]	**64**	61	–	–	**64**	61

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 Tracey Killen stepped down from the remuneration committee chair on 7 December 2023 and from the Board on 31 December 2023.

The aggregate remuneration for executive and non-executive directors in 2023 was £2.96m (2022: £2.92m). Aggregate remuneration comprises salary, fees, benefits, pension contributions and bonus payments.

Share awards granted during the year (audited)

LTIP

On 3 March 2023, LTIP awards were made to the executive directors, which will vest subject to performance over the three financial years to 31 December 2025. 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	3 March 2023	150%	£17.88	49,606	£886,955	16.7% (12.5% for EPS element, 25% for TSR element)	1 January 2023 to 31 December 2025
Steve Crummett				39,564	£707,404		

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 3 March 2023 was £17.94.

Directors' remuneration report continued
Annual report on remuneration

Deferred bonus share options

Of the annual bonus earned in 2022, 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	3 March 2023	30%	£17.88	11,811	£211,181	3 March 2026
Steve Crummett				9,420	£168,430	

Outstanding interests under share schemes (audited)

Details of the executive directors' interests in long-term incentive awards as at 31 December 2023 and movements during the year are as follows:

Performance shares

	Date of award	No. of shares outstanding as at 1 January 2023	No. of shares awarded	No. of dividend equivalent shares awarded	Total no. of shares vested	No. of shares lapsed	No. of awards outstanding as at 31 December 2023	End of performance period	Date awards vest
John Morgan									
	2.3.2020	43,297	–	4,494	47,791	–	–	31.12.2022	2.3.2023
	5.3.2021	47,764	–	–	–	–	47,764	31.12.2023	5.3.2024
	7.3.2022	36,823	–	–	–	–	36,823	31.12.2024	7.3.2025
	3.3.2023	–	49,606	–	–	–	49,606	31.12.2025	3.3.2026
Total		**127,884**	**49,606**	**4,494**	**47,791**	**–**	**134,193**		
Steve Crummett									
	2.3.2020	34,524	–	3,583	38,107	–	–	31.12.2022	2.3.2023
	5.3.2021	38,086	–	–	–	–	38,086	31.12.2023	5.3.2024
	7.3.2022	29,369	–	–	–	–	29,369	31.12.2024	7.3.2025
	3.3.2023	–	39,564	–	–	–	39,564	31.12.2025	3.3.2026
Total		**101,979**	**39,564**	**3,583**	**38,107**	**–**	**107,019**		

Notes:

- 100% of the awards granted in 2020 vested due to the EPS and TSR targets being achieved in full. The Group's 2022 EPS was 237.9p, which resulted in 100% of the EPS element of the award vesting. The Group also achieved a TSR of 7.5% per year, which exceeded the median of the comparator group by 12.7% per year and resulted in 100% of the TSR element of the award vesting.
- Of the awards granted in 2021, 100% vested due to the EPS and TSR targets being achieved. The Group's 2023 EPS was 247.7p, which resulted in 100% of the EPS element of the award vesting. The Group also achieved a TSR of 20.8% per year, which exceeded the median of the comparator group by 21.5% per year and resulted in 100% of the TSR element of the award vesting. The net awards received (after the deduction of tax and National Insurance) will be subject to a two-year holding period in which the director will not be able to sell the shares but will be entitled to receive dividends and vote on the shares. The shares will be released to the director at the end of the holding period.
- The awards of performance shares over 150% of salary granted in 2022 and 2023 are subject to a point-to-point EPS growth target and a TSR performance condition.

Directors' remuneration report continued
Annual report on remuneration

Deferred bonus plan nil-cost options

	Date of grant	No. of options outstanding as at 1 January 2023	No. of options granted	No. of dividend equivalent shares awarded	No. of options exercised	No. of options lapsed	No. of options outstanding as at 31 December 2023	Date from which exercisable
John Morgan								
	2.3.2020	9,758	–	1,012	10,770	–	–	2.3.2023
	7.3.2022	8,937	–	–	–	–	8,937	7.3.2025
	3.3.2023	–	11,811	–	–	–	11,811	3.3.2026
Total		**18,695**	**11,811**	**1,012**	**10,770**	**–**	**20,748**	
Steve Crummett								
	2.3.2020	7,781	–	807	8,588	–	–	2.3.2023
	7.3.2022	7,126	–	–	–	–	7,126	7.3.2025
	3.3.2023	–	9,420	–	–	–	9,420	3.3.2026
Total		**14,907**	**9,420**	**807**	**8,588**	**–**	**16,546**	

Notes:

- The mid-market price of a share on 31 December 2023 was £22.15 and the range during the year was £15.50 to £22.50.
- No bonus was earned by the executive directors in respect of the 2020 financial year and, accordingly, no options were awarded under the deferred bonus plan in 2021.
- The deferred bonus plan nil-cost share options granted on 2 March 2020 became exercisable on 2 March 2023 and on vesting, each nil-cost option granted carried a right to receive an amount linked to dividends paid. The dividend equivalent was settled in ordinary shares of the Company and was added to the original award. The share price used to determine the number of dividend equivalent shares was the closing middle market quotation on 1 March 2023 which was £17.92. The options and dividend equivalent shares are exercisable until the tenth anniversary of their grant date.
- Steve Crummett exercised his options granted on 2 March 2020 and the associated dividend equivalent shares on 9 August 2023 at a sale price of £18.52 per share.
- John Morgan exercised his options granted on 2 March 2020 and the associated dividend equivalent shares on 9 August 2023 at a sale price of £18.48 per share.

Other disclosures

Remuneration committee meetings

The committee met on three occasions during the year. The chair of the Board attended all meetings of the committee and the chief executive attended one of the committee meetings. The company secretary acted as secretary to the committee. The finance director did not attend any 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 Ellason LLP (Ellason), who were appointed by the committee in 2021 following a competitive tender process. The committee has also relied on information and advice provided by the company secretary and has consulted the chief executive (albeit not in relation to his own remuneration). Ellason are signatories of the Code of Conduct for Remuneration Consultants, details of which can be found at remunerationconsultantsgroup.com, and the committee is satisfied that the advice it receives from Ellason is independent and objective. The fees paid by the Company to Ellason during the financial year were £67,905 (2022: £100,455). Ellason 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

At last year's AGM held on 4 May 2023, the remuneration report (excluding the remuneration policy) for the year ended 31 December 2022 was approved by shareholders. The following table shows the results of the advisory vote on the 2022 annual remuneration report as well as the results of the binding vote on the remuneration policy, which was last approved by shareholders at the 2023 AGM.

	Voting for		Voting against			
	Number of shares	Percentage	Number of shares	Percentage	Total votes cast	Votes withheld[1]
Annual remuneration report	37,047,061	96.08%	1,512,063	3.92%	38,559,124	7,623
Remuneration policy	27,256,102	77.81%	7,774,480	22.19%	35,030,582	3,534,665

1 Shareholders who have indicated that they wish to actively abstain from voting are counted as a vote withheld. A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast 'for' and 'against' a resolution.

In line with Provision 4 of the Corporate Governance Code, the Company consulted with several of our larger shareholders to understand the reasons for their vote and to understand their views on proposed changes to our remuneration policy implementation. Further details can be found on page 138.

Dilution and share usage under employee share plans

Shares required for the 2007 Employee Share Option Plan are satisfied by shares purchased in the market via the Morgan Sindall Employee Benefit Trust ('the Trust') and shares for the Company's other share plans may be satisfied using either new issue shares or market-purchased shares. Our present intention is to use market-purchased shares to satisfy these awards; however, we retain the ability to use new issue shares and may decide to do so up to the dilution limits recommended by the Investment Association (10% of issued ordinary share capital for all-employee share plans over a 10-year period and, within this limit, no more than 5% of issued ordinary share capital for executive or discretionary share plans). The outstanding level of dilution against these limits equates to 9.05% (2022: 7.17%) of the current issued ordinary share capital under all-employee share plans, of which 0% relates to discretionary share plans.

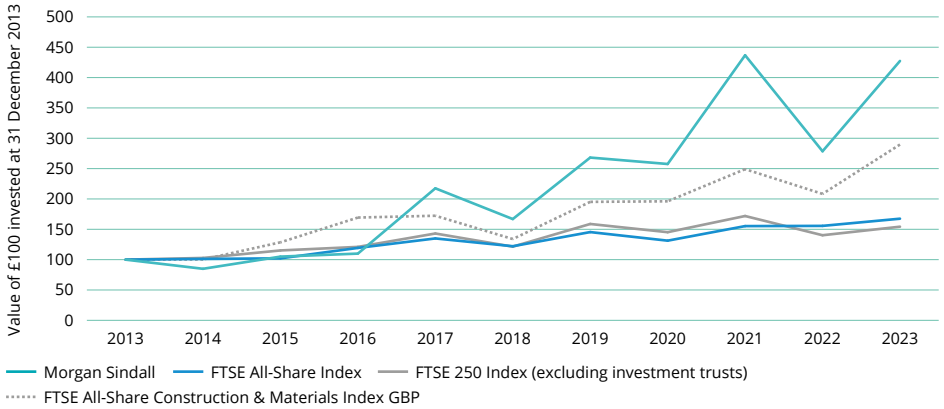
As at 31 December 2023, the Trust held 1,124,215 shares (2022: 1,135,131), which may be used to satisfy awards.

Directors' remuneration report continued
Other disclosures

Chief executive remuneration and performance graph

Historical TSR performance

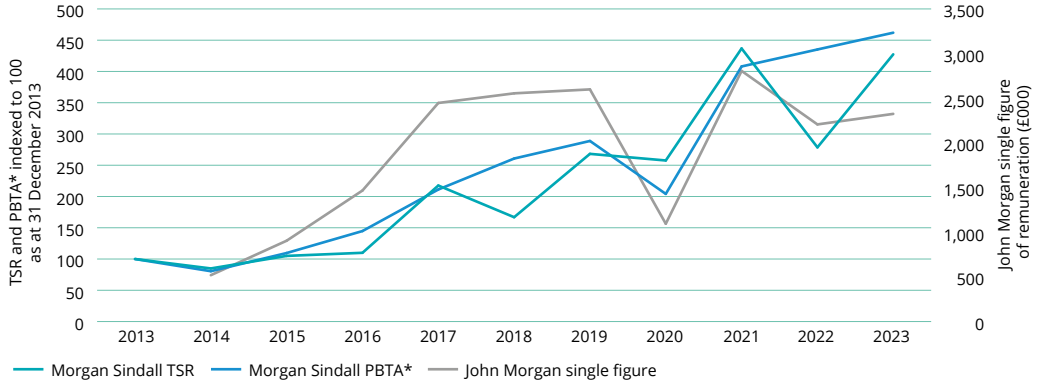
The graph below shows the value to 31 December 2023 of £100 invested in the Company on 1 January 2014 compared with the value of £100 invested in the FTSE All-Share Index and the FTSE All-Share Construction & Materials Index, these being indices of which the Company has been a constituent over the period shown. The graph also shows the value of £100 invested in the FTSE 250 Index (excluding investment trusts), the constituents of which are used for the purposes of the TSR element of the LTIP. In all cases, the other points plotted are the values at intervening financial year ends.



Historical pay vs performance

The graph below shows the TSR and PBTA* for the Company over the last 10 financial years.

The chief executive remuneration table provides a summary of the total remuneration received by the chief executive over the last 10 years, including details of annual bonus payout and long-term incentive award vesting level in each year. The annual bonus payout and long-term incentive award vesting level as a percentage of the maximum opportunity are also shown for each of these years.



	2014	2015	2016	2017	2018	2019	2020	2021	2022	**2023**
Total remuneration £000	519	905	1,467	2,447	2,555	2,599	1,095	2,806	2,207	**2,325**
Annual bonus percentage of maximum	–	80	100	100	100	93	–	100	100	**95**
Long-term incentive award vesting percentage of maximum share awards	–	–	62	100	100	100	43	100	100	**100**
Long-term incentive award vesting percentage of maximum share options	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**

Note: The 2022 total remuneration has been revised from last year's report to reflect the actual share price used for the vesting and the value of dividend equivalent shares awarded under the 2014 LTIP (see page 153 for further information).

Directors' remuneration report continued
Other disclosures

Chief executive pay ratio

Financial year	Chief executive pay ratio			
	Calculation methodology	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2023	**B**	**56:1**	**32:1**	**26:1**
2022	B	47:1	34:1	20:1
2021	B	60:1	53:1	32:1
2020	B	30:1	22:1	15:1
2019	B	58:1	43:1	27:1

The lower-, median- and upper-quartile employees were determined based on the hourly rate data as at 5 April 2023, collected for the Group's reporting under the gender pay gap legislation (Option B). The gender pay gap data reviews the pay of all UK employees. This calculation methodology was chosen as the data was readily available from our work in determining the gender pay gap. Furthermore, with our decentralised business model and significant UK workforce, calculating the single figure of remuneration for each employee (Option A) would be prohibitively time-consuming and expensive.

The committee has considered the pay data for the three individuals identified and believes that it fairly reflects pay at the relevant quartiles among our UK workforce. The three individuals identified were full-time employees during the year. No adjustments or assumptions were made by the committee, with the total remuneration of these employees calculated in accordance with the methodology used to calculate the single figure of the chief executive for the 2023 financial year. The table below sets out the remuneration details for the individuals identified.

Salary	Chief executive	P25	P50	P75
Basic salary £k	591	36	55	71
Total annual pay[1] £k	1,360	41	73	90
Total pay[2] £k	2,325	41	73	90

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 and employee assistance programme.
2 Total pay includes total annual pay plus the cash value of any long-term incentives received under either the LTIP or the SOP.

The ratio of 32:1 is 6% lower than the median ratio of 34:1 in 2022. In 2023, the chief executive received an annual bonus of 119% of salary and 100% of the long-term incentive awards vested. In 2022, the chief executive received a maximum annual bonus and 100% of the long-term incentive award vested, together with the long-term incentive award benefiting from share price growth over its vesting period.

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 substantially 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	17:1	11:1	8:1
Total annual pay[1]	33:1	19:1	15:1
Total pay[2]	56:1	32:1	26:1

1 Total annual pay includes, where applicable, basic salary, annual bonus, pension, travel or car allowance and the cash value of employee benefits received, such as death in service, private medical, group income protection and employee assistance programme.
2 Total pay includes total annual pay plus the cash value of any long-term incentives received under either the LTIP or the SOP.

Relative importance of spend on pay

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

	2023	2022	Change
Employee remuneration	**£616.4m**	£592.4m	4.1%
Basic earnings per share (adjusted*)	**247.7p**	237.9p	4.1%
Dividends paid during the year	**£48.1m**	£43.5m	10.6%
Employee headcount[1]	**7,689**	7,203	6.7%

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

Shareholding guidelines (audited)

Through participation in performance-linked share-based plans, there is strong encouragement for senior executives to build and maintain a significant shareholding in the business. Shareholding guidelines are in place requiring the executive directors to build and maintain a shareholding in the Company equivalent to 200% of base salary. Until this threshold is achieved, there is a requirement for executives to retain no less than 50% of the net of tax value of vested incentive awards.

	Percentage of salary required under shareholding guidelines	**Percentage of salary held at 31 December 2023**
John Morgan	200%	**13,321%**
Steve Crummett	200%	**852%**

The share price used to value the shares as at 31 December 2023 was £22.15.

Directors' remuneration report continued
Other disclosures

Percentage change in remuneration levels

The table below shows details of the percentage change in base salary, benefits and annual bonus for the chair, the executive and non-executive directors over the last four financial years, compared to the average percentage change for other employees of the Group over the same periods.

	Percentage change in base salary				Percentage change in benefits				Percentage change in bonus			
	2022–23	2021-22	2020-21	2019-20	**2022-23**	2021-22	2020-21	2019-20	**2022-23**	2021-22	2020-21	2019-20
Chair	**5.0%**	2.8%	7.4%	-2.3%	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Chief executive	**5.0%**	3.0%	7.4%	-2.1%	**0.2%**	4.8%	2.4%	2.6%	**0.3%**	3.1%	100%	100%
Finance director	**5.0%**	3.0%	7.4%	-2.2%	**0.0%**	4.3%	3.2%	-0.2%	**0.3%**	3.0%	100%	100%
Audit and responsible business committee chair (Malcolm Cooper)	**5.0%**	2.2%	6.8%	-3.7%	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Senior independent director (David Lowden)	**5.0%**	2.5%	7.0%	-3.4%	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Remuneration Committee chair (Jen Tippin)[1]	**6.4%**	3.0%	8.5%	n/a	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Kathy Quashie[2]	**5.0%**	3.0%	n/a	n/a	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Remuneration committee chair (Tracey Killen)[3]	**3.9%**	2.5%	7.0%	-3.4%	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
All employees	**2.7%**	1.5%	2.6%	4.8%	**-13.3%**	-2.8%	1.5%	8.0%	**8.8%**	-5.9%	50.6%	-9.1%

1 Jen Tippin joined the Group on 1 March 2020 and a full-time equivalent salary has been used for the 2020–2021 comparison. Jen took over as remuneration committee chair on 7 December 2023.
2 Kathy Quashie joined the Group on 1 June 2021 and a full-time equivalent salary has been used for comparison purposes.
3 Tracey Killen stepped down as remuneration committee chair on 7 December 2023 and from the Board on 31 December 2023.

Directors' interests (audited)

The figures below set out the shareholdings beneficially owned by directors and their family interests at 31 December 2023.

	31 December 2023 No. of shares	31 December 2022 No. of shares
Michael Findlay	**4,173**	4,173
John Morgan	**3,556,255**	3,524,060
Steve Crummett	**181,503**	161,307
Malcolm Cooper	**10,000**	10,000
David Lowden	**4,000**	4,000
Jen Tippin	**1,000**	1,000
Kathy Quashie	**450**	450
Tracey Killen[1]	**611**	611

1 Tracey Killen stepped down from the Board on 31 December 2023.

There have been no changes in the interests of the directors between 31 December 2023 and 21 February 2024.

External appointments

At the discretion of the Board, executive directors are allowed to act as non-executive directors of other companies and retain any fees relating to those posts. Neither of the executive directors currently hold external appointments for which they are remunerated.

Payments to past directors or for loss of office (audited)

No payments were made during the year.

Implementation of the remuneration policy for 2024

Base salaries

In setting the 2024 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 5%. The committee determined that the base salaries for John Morgan and Steve Crummett should increase by 4% with effect from 1 January 2024. In confirming the salary increases, the committee took account of the performance of each executive director and their respective responsibilities and the positioning of their current salaries relative to market competitors, as detailed in the chair's statement above.

	From 1 January 2024 £	From 1 January 2023 £	Increase
John Morgan	**614,962**	591,310	4%
Steve Crummett	**490,475**	471,610	4%

Kelly Gangotra's starting salary will be aligned to that of Steve Crummett at £490,475, reflecting her track record and significant experience in the construction and property industry.

Pension

The Company contributes up to 6% 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 LifeSight master trust, 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.

Annual bonus

The maximum annual bonus potential for 2024 will be 150% of base salary with 67% of any bonus earned paid in cash and the remaining 33% deferred in nil-cost share options for three years. To ensure that management is focused on the Group's financial performance in 2024, 100% of the bonus will continue to be based on a PBTA* target range set in relation to the Group budget. The annual bonus, including the deferred shares, will be subject to malus and clawback provisions.

The targets for the forthcoming year are set in relation to the Group budget, which is considered commercially sensitive. For 2024, the bonus trigger point for the annual bonus will be 90% and the maximum trigger point will be 110% of budgeted PBTA*. Retrospective disclosure of the targets and performance against them will be disclosed in next year's remuneration report.

On joining the Company, Kelly Gangotra will be eligible for an annual bonus of up to 150% of salary, pro-rated to reflect the proportion of the year served. Kelly's bonus will be subject to the same performance measures, targets and deferral requirement noted above.

Long-term incentives

The committee intends to make awards to the current executive directors under the LTIP in March 2024.

The awards to be granted in 2024 will be over 200% of base salary for the chief executive and 150% for the finance director. Consistent with prior years, two thirds of awards will be based on an EPS performance target with the remaining one third based on the Company's TSR performance. Further details on these performance conditions are set out below.

Net shares vesting under LTIP awards granted in 2024 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.

Following her appointment later in the year, and as noted earlier in the report, Kelly Gangotra will receive an award under the LTIP equivalent to 150% of base salary plus an additional one-off award of 50% of salary to compensate her for awards foregone on joining Morgan Sindall. Kelly's LTIP will be subject to the same performance measures, targets, holding period and malus and clawback provisions noted above.

EPS performance condition (two thirds of award)

In order to set appropriate EPS targets for the 2024 cycle, the committee considered a number of internal and external reference points, broker forecasts for the Company and sector peers over the next two to three years, and typical growth rates in our sector. The threshold has been set at a 2026 EPS of 272p and stretch of 336p. The committee is satisfied this range is appropriately stretching given forecasts for the sector, noting that vesting would be only 20% if market consensus for the Company at the time of determining the targets were achieved, with full vesting requiring 20% outperformance of consensus.

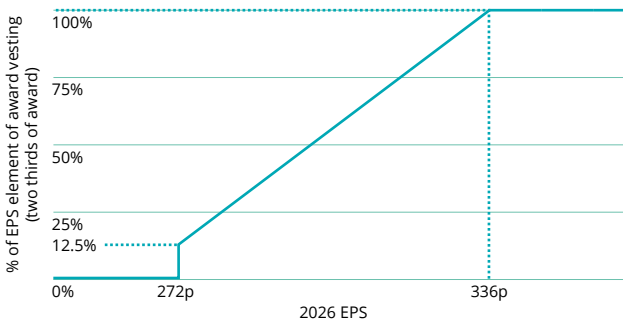
Directors' remuneration report continued

Implementation of the remuneration policy for 2024

Vesting of the EPS component will be based on achievement against this range in 2026, and will also be subject to review by the remuneration committee to ensure vesting is commensurate with underlying Company performance, taking into account, for example, imposed tax changes.

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

EPS performance condition



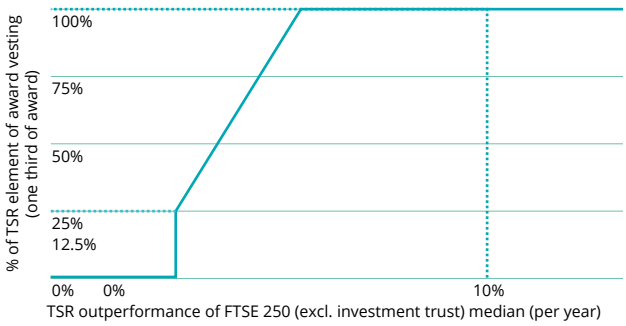
TSR performance condition (one third of award)

TSR targets for 2024 awards will be expressed as an outperformance of median as per the last three cycles.

The TSR comparator group will again be based on the constituents of the FTSE 250 Index (excluding investment trusts). Full vesting will require 10% per year outperformance of comparator median, a level which remains broadly equivalent to an upper-quartile level of difficulty.

The target range for the TSR performance condition is shown in the graph below.

TSR performance condition



Similarly to previous cycles, the committee retains overarching discretion to override the formulaic outturn of the LTIP where it believes the outcome is not truly reflective of performance, or to adjust performance measures, targets and/or weightings during the performance period under exceptional circumstances. Any use of committee discretion with respect to waiving or modifying performance conditions will be disclosed in the relevant annual report.

Fees for the non-executive directors

A thorough review of the non-executive director fees was undertaken during 2023, resulting in increases for 2024 of c11% to help ensure the fees reflect the time commitment of the roles and are competitive. The resulting fee levels, summarised below, are now positioned broadly between lower quartile and median of the FTSE 250.

The committee determined that the chair's fee for 2024 be increased to £220,000 taking into account (i) the exceptional contribution of Michael Findlay and his experience in the role; and (ii) the lower-quartile position of the current fee vs relevant market comparators. The Board deemed that the base fee for non-executive directors should also be increased given the lower-quartile position of the current fees vs relevant market comparators. The committee chair and senior independent director fees were increased for 2024 which the Board deemed appropriate to reflect the increasing complexity and time commitment required of these roles.

Accordingly, the annual fees from 1 January 2024 are as follows:

	2024 £	2023 £	Increase %
Chair	**220,000**	198,570	11
Non-executive directors			
Base fee	**60,000**	54,025	11
Additional fees:			
Audit committee chair	**11,700**	10,500	11
Responsible business committee chair	**11,700**	10,500	11
Remuneration committee chair	**11,700**	10,500	11
Senior independent director	**11,700**	10,500	11

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:

Jen Tippin
Chair of the remuneration committee
21 February 2024

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 2023.

The strategic report is presented on the inside front cover to page 97 (inclusive). The directors' report required under the Companies Act 2006 ('the Act') comprises this report (pages 163 to 166), the directors' and corporate governance report (pages 108 to 134) and the remuneration report (pages 135 to 162), together with explanatory notes incorporated by reference.

The Board has chosen, in accordance with section 414C (11) of the Act, to include in the strategic report the following information that it considers to be of strategic importance that would otherwise be required to be disclosed in the directors' report:

- an explanation of the steps the directors have taken to foster the Company's business relationships with suppliers, customers and others (pages 17 to 19);
- employment policies, employee consultation and involvement (pages 94 and 95 and pages 17 and 18);
- disclosures concerning employment of disabled persons (page 27);
- additional details of the Group's approach to diversity and inclusion (pages 27 and 28), and ESG disclosures (pages 20 to 44);
- disclosures concerning GHG emissions, energy consumption, energy-efficiency action and an intensity ratio appropriate for our business (pages 30 to 36 and pages 92 and 93);
- the likely future developments in the business of the Group (pages 48 to 65);
- detail on principal risks (pages 69 to 77); and
- details of research and development activities (pages 20 to 93).

The management report as required by the FCA's Disclosure Guidance and Transparency Rules (Rule 4.1) comprises the strategic report which includes the principal risks to our business.

There were no significant events since the balance sheet date.

The Group does not operate any branches outside of the United Kingdom.

The table below shows where to locate 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	135 to 162
9.8.4 (12)	Dividend waiver by Employee Benefit Trust	165
9.8.4 (13)	Shareholder waiver of future dividends	165

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 160 in the remuneration report. Further details of the service agreements and remuneration of the executive directors, letters of appointment and fees of the non-executive directors, and their 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, the Code and the Act. The Board may appoint a director, either to fill a vacancy or as an addition to the existing Board, so long as the total number of directors does not exceed the limit provided in the Articles. At every AGM, all the directors at the date of the notice convening the AGM must retire and offer themselves for re-election. All the directors proposed for re-election at the 2024 AGM held office throughout the year. Sharon Fennessy was appointed to the Board on 1 January 2024 and will be offering herself for election by shareholders.

Annual general meeting

The AGM of the Company will be held on 2 May 2024 at 10.00am at the offices of Morgan Sindall Group plc, Kent House, 14–17 Market Place, London, W1W 8AJ. The Notice of Meeting is available to view on the Company's website in the investors section.

Powers of directors

Subject to the Articles, the Act and any directions given by the Company by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company, whether relating to the management of the business or not. In particular, the Board may exercise all the powers of the Company to borrow money, to mortgage or charge any of its undertakings, property, assets (present and future) and uncalled capital, to issue debentures and other securities, and to give security for any debt, liability or obligation of the Company or of any third party.

Directors' indemnities

The Articles entitle the directors of the Company to be indemnified, to the extent permitted by the Act and any other applicable legislation, out of the assets of the Company in the event that they suffer any loss or incur any liability in connection with the execution of their duties as directors. Neither the indemnity nor any applicable insurance provides cover in the event that a director (or officer or company secretary as the case may be) is proved to have acted fraudulently or dishonestly.

In addition, and in common with many other companies, the Company had during the year, and continues to have in place, appropriate directors' and officers' liability insurance in favour of its directors and other officers in respect of certain losses or liabilities to which they may be exposed due to their office. The Company has also indemnified each Board director and certain directors of its Group companies to the extent permitted by law against any liability incurred in relation to acts or omissions arising in the ordinary course of their duties.

Other statutory information continued

The indemnity arrangements are categorised as qualifying third-party indemnity provisions under the Act and will continue in force for the purposes of the Act and for the benefit of directors (or officers or company secretary as the case may be) on an ongoing basis. The Company also had, and continues to have in place, a pension trustee liability insurance policy in favour of the trustees of the Morgan Sindall Retirement Savings Plan in respect of certain losses or liabilities to which they may be exposed due to their office. This constitutes a 'qualifying pension scheme indemnity provision' for the purposes of the Act.

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. No changes to the Articles are being proposed at this year's AGM.

Capital structure

During the year, 7,122 ordinary shares were allotted to satisfy amounts under the Group's Savings-Related Share Option Plan.

As at 31 December 2023, the issued share capital totalled 47,357,726 ordinary shares of 5p each. Further details of the issued share capital are shown in note 21 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 4 May 2023 to allot relevant securities up to an aggregate nominal amount of £789,207.35. That authority will apply until the conclusion of this year's AGM or close of business on 4 August 2024, 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 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 may decide as set out in the Company's Articles. 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.

Restrictions 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 (e.g. insider trading laws); and
- pursuant to the Listing Rules of the FCA whereby certain employees of the Company require prior 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 4 May 2023, a resolution was passed giving the directors authority to make market purchases of Company shares up to 4,735,244 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 4 August 2024, 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, having reviewed the level of distributable reserves, justifies its payment. The Company's capital allocation framework is designed to balance the needs of all our stakeholders while enhancing the Group's market competitiveness and capabilities and maintaining our financial strength. As part of this framework, the Board operates a formal dividend policy such that dividend cover is expected to be in the range of 2.0 to 2.5 times on an annual basis.

Having taken account of the framework and the broader economic backdrop, an interim dividend of 36p per share was paid on 26 October 2023 and the directors recommend a final dividend of 78p, making a total for the year of 114p. This represents dividend cover of 2.2 times. Further details can be found in note 8 to the consolidated financial statements on page 199. Subject to shareholder approval at the 2024 AGM, the final dividend will be paid on Thursday 16 May 2024 to shareholders on the register at close of business on Friday 26 April 2024.

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 are exercised by the Trustee. The Trustee may vote or abstain from voting with the shares or accept or reject any offer relating to those shares, in any way they see fit, without incurring any liability and without being required to give reasons for their decision. The terms of the Trust also provide that any dividends payable on the shares held by the Trust are waived unless and to the extent otherwise directed by the Company from time to time. The Trust waived its right to the 2022 final and 2023 interim dividend paid during 2023. Details of the shares so held may be found in the consolidated financial statements on page 211.

Substantial shareholdings

As at 31 December 2023 the following information has been disclosed to the Company under the FCA's Disclosure Guidance and Transparency Rules (DTR 5), in respect of notifiable interests in the voting rights in the Company's issued share capital:

Name of holder	Total voting rights[1]	% of total voting rights[2]	Direct or indirect holding
abrdn plc	5,213,130	11.01	Indirect
Numis Nominees (Client) Limited <Morgan03> and HSBC Global Custody Nominee (UK) Limited <462704>[3]	3,479,537	7.51	Direct
BlackRock, Inc.	3,178,365	6.69	Indirect
Ameriprise Financial, Inc.	2,627,969	5.93	Indirect
JPMorgan Asset Management Holdings Inc.	2,374,521	5.01	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 shareholding.

As at 21 February 2024, JPMorgan Asset Management Holdings Inc. had notified the Company in accordance with DTR 5 that their indirect interest in the total voting rights of the Company had fallen below the minimum threshold.

Related party transactions

During the year, the Board reviewed all related party transactions and, save as disclosed in note 25, there were no significant related party transactions in the year to 31 December 2023.

Change of control

The Group's banking facilities, which are described on page 46 in the financial review, require repayment in the event of a change of control. The Group's facilities for surety bonding require provision of cash collateral for outstanding bonds upon a change of control. In addition, the Company's employee share incentive schemes contain provisions whereby, upon a change of control, outstanding options and awards would vest and become exercisable by the relevant employees, subject to the rules of the relevant schemes.

There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment in the event of a takeover bid.

Financial instruments and risks

The financial risk management objectives and policies can be found in the principal risks section in the strategic report on pages 73 and 74. Information about the use of financial instruments by the Company and its subsidiaries and details about the Group's exposure to credit, liquidity and market risks are given in note 26 to the consolidated financial statements.

Other statutory information continued

Political contributions

No contributions were made to any political parties during the current or preceding year. As a precautionary measure, shareholder approval is being sought at the forthcoming AGM for the Company and its subsidiaries to make donations and/or incur expenditure which may be construed as political by the wide definition of that term included in the relevant legislation. Further details are provided in the Notice of Meeting to shareholders accompanying this report.

Disclosure of information to the external auditor

The directors who held office at the date of approval of the directors' and corporate governance report confirm that, so far as they are each aware:

- there is no relevant audit information of which the Company's auditor is unaware; and
- each director has taken all reasonable steps that he or she ought to have taken as a director in order to ascertain any relevant audit information and to ensure that the Company's auditor is aware of such information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Group financial statements in accordance with UK-adopted international accounting and reporting standards and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, 'Changes in Accounting Estimates and Errors' and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards (and in respect of the Parent Company financial statements, FRS 101) is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and Company financial position and financial performance;
- in respect of the Group financial statements, state whether UK-adopted international accounting and reporting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the Parent Company financial statements, state whether applicable UK Accounting Standards, including FRS 101, 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 appropriate to presume that the Company and/or the Group will not continue in business.

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

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

Responsibility statement

The directors confirm that, to the best of their knowledge:

- the consolidated financial statements, prepared in accordance with UK-adopted International Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Parent Company and undertakings included in the consolidation taken as a whole;
- the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the Company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- they consider the annual report including the financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

The directors' report was approved by the Board and signed on its behalf by:

John Morgan
Chief Executive
21 February 2024

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Independent auditor's report to the members of Morgan Sindall Group plc

Opinion

In our opinion:

- Morgan Sindall Group plc's Group financial statements and Parent Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Morgan Sindall Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2023 which comprise:

Group	Parent company
Consolidated balance sheet as at 31 December 2023	Balance sheet as at 31 December 2023
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Statement of cash flows for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 3 to the financial statements including material accounting policy information
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 28 to the financial statements, including material accounting policy information	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK-adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting included the following:

- In conjunction with our walkthrough of the Group's financial statement close process, we confirmed our understanding of management's going concern assessment process and also engaged with management early to ensure that key factors were considered in their assessment, including factors which we determined from our own independent risk assessment.
- We obtained management's Board-approved forecast cash flows and covenant calculation which covers the period to 31 March 2025. As part of this assessment, management have modelled six downside scenarios. Scenarios one and two relate to the construction business and assume a reduction in revenues and margin, and working capital, respectively. Scenario three assumes a reduction in value and timing of open market sales in respect of the Partnership Housing division. Scenario four assumes project delays and cost increases in the regeneration businesses. Scenario five assumes a higher developers' pledge expense in relation to building safety matters. Lastly, scenario six is a severe downside scenario and models the combined impact of scenarios one to five. Management also performed a reverse stress-test to identify what scenario could lead to the Group utilising all liquidity and/or breaching the financial loan covenants during the going concern period.
- We assessed the completeness and appropriateness of the scenarios modelled by management which included assessing the relevance to each division and how these compare with principal risks and uncertainties of the Group.

- We assessed the reasonableness of the cash flow forecast by analysing management's historical forecasting accuracy, and evaluating the key assumptions used in the forecast. This included considering the forecasts on a division by division basis and assessing whether key factors specific to each of the divisions, such as rising inflation, the economic environment and market/sector trends, were considered in management's assessment. We considered management's assessment of the impact of climate change on the Group's cash flow forecasts.
- We have considered the methodology used to prepare the forecast and covenant calculations. We also tested the clerical accuracy and logical integrity of the model, used to prepare the Group's going concern assessment.
- We considered whether the Group's forecasts in the going concern assessment were consistent with other forecasts used by the Group in its accounting estimates, including the assessment of goodwill impairment.
- We performed further sensitivity analysis and our own reverse stress-testing in order to identify what scenarios (e.g. the extent operating profit would need to deteriorate) could lead to the Group utilising all liquidity and/or breaching the financial loan covenants during the going concern period, and whether these scenarios were plausible.
- Our analysis also considered the mitigating actions that management could undertake in an extreme downside scenario and whether these were achievable and in control of management.
- We also confirmed the continued availability of credit facilities through the going concern period and reviewed their underlying terms, including covenants, by examination of executed documentation.
- We considered whether the going concern disclosures included in the annual report were appropriate and in conformity with applicable reporting standards.

Our key observations

The results from both management's evaluation and our independent sensitivity analysis and reverse stress-testing indicate that in order to breach its covenants and exhaust its available funding in the going concern period, the Group's operating profit would need to deteriorate to a loss, which is significantly worse than any of the plausible downside scenarios.

As at 31 December 2023, the Group has a secured order book of £8.9bn, of which £3.5bn relates to the 12 months ending 31 December 2024, and it has a net cash balance of £460.7m (which includes £26.1m that relates to the Group's share of cash held with jointly controlled operations). The Group also has substantial borrowing facilities available to it during the going concern period. The undrawn committed facilities available at 31 December 2023 amounted to £180m. These comprise a £165m facility expiring in October 2026 and a £15m facility expiring in June 2026.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for the period to 31 March 2025.

In relation to the Group and Parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

Overview of our audit approach

Audit scope	▪ We performed an audit of the complete financial information of four components and audit procedures on specific balances for a further nine components. ▪ The components where we performed full and specific audit procedures accounted for 97% of profit before tax and 100% of revenue.
Key audit matters	▪ Contract revenue and margin recognition (including valuation of contract assets, unagreed income and contract liabilities) ▪ Recoverability and valuation of inventory balances held ▪ Impairment of goodwill and investment in subsidiary undertakings (Parent Company only) ▪ Building safety provision (and related exceptional item)
Materiality	▪ Overall Group materiality of £7m which represents 5% of profit before tax.

Independent auditor's report to the members of Morgan Sindall Group plc continued

An overview of the scope of the Parent Company and Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment, the potential impact of climate change and other factors, such as recent internal audit results, when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected 13 entities which represent the principal business units across all six divisions within the Group.

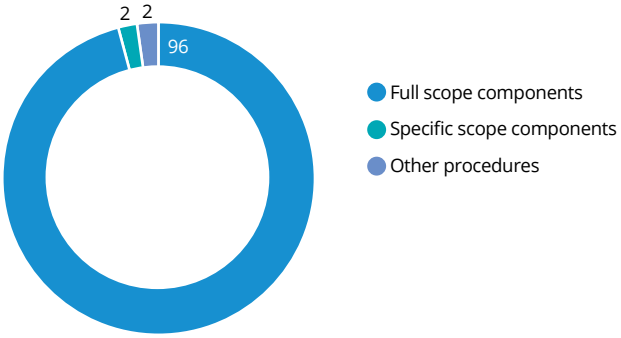
Of the 13 components selected, we performed an audit of the complete financial information of four components ('full scope components') which were selected based on their size or risk characteristics. These covered the majority of the Construction, Infrastructure, Fit Out, Urban Regeneration and Partnership Housing divisions. For the remaining nine components ('specific scope components'), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements, either because of the size of these accounts or their risk profile. These included the Property Services division, as well as smaller subsidiaries of the other divisions.

The reporting components where we performed audit procedures accounted for 97% (2022: 98%) of the Group's profit before tax and 100% (2022: 100%) of the Group's revenue. For the current year, the full scope components contributed 96% (2022: 82%) of the Group's profit before tax and 90% (2022: 90%) of the Group's revenue. The specific scope component contributed 2% (2022: 13%) of the Group's profit before tax and 10% (2022: 10%) of the Group's revenue. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

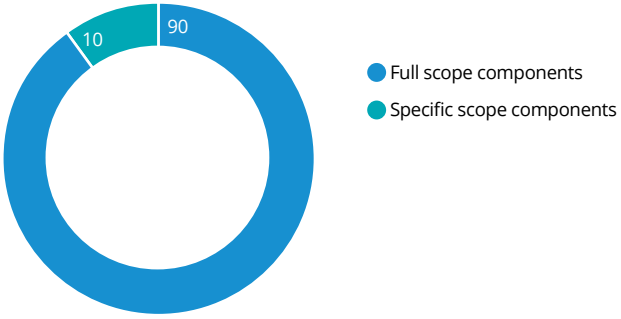
Of the remaining components that together represent 2% of the Group's profit before tax, none contained individually material balances. For these components, we performed other procedures, including analytical review to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

Profit before tax (%)



Revenue (%)



Changes from the prior year

For the 2023 audit, no joint ventures were included (2022: two joint ventures were subjected to specified procedures) and there was a small change to which of the Group's smaller subsidiaries have material balances this year and therefore which were determined to be a specific scope component. Our overall audit coverage of the Group's profit before tax and revenues has, however, remained unchanged from the prior year.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The primary audit team are responsible for the scope and direction of the audit process. The primary team visited component teams over the course of the audit to discuss the audit approach with component teams and any issues arising from their work, to meet with local management and to review relevant audit working papers on risk areas. The primary team also participated in interim and year-end audit close meetings for the divisions. These visits and meetings were supplemented by frequent video calls between the primary team and component teams throughout all stages of the audit. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Climate change

Stakeholders are increasingly interested in how climate change will impact Morgan Sindall Group plc. The Group has assessed the principal risks and impact as relating to: (a) the environmental impact of carbon emissions and waste produced; (b) impact on operations of temperature changes and severe weather events; and (c) adapting to the changing needs of customers – all in the context of the Group's plan to achieve its 2030 and 2045 net zero targets. These matters are explained on pages 84 to 88 in the required Task Force for Climate-related Financial Disclosures and on page 77 in the principal risks and uncertainties. The Group has also explained its climate commitments on pages 30 to 36. All of these disclosures form part of the 'Other information', rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on 'Other information'.

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

The Group has explained how the impact of climate change has been reflected in its financial statements including its commitment to achieve its net zero emissions targets by 2030 and 2045. The basis of preparation section also explains that governmental and societal responses to climate change risks are still developing, and consequently the potential impacts of climate change risk are not fully incorporated in the financial statements. The degree of uncertainty of these changes means that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK-adopted international accounting standards. In the 'Identified climate-related risks and opportunities' section of the strategic report, supplementary narrative explanation of the impact of reasonably possible changes in key assumptions has been provided.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of physical and transition climate-related risks on the Group and their climate commitments. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

Our risk assessment identified that there may be additional costs for the business to achieve its climate commitments, for example in relation to carbon offsetting projects, and that these needed to be appropriately reflected in the modelling of future cash flows which are used in management's assessment of the impairment of goodwill. While management have reflected such costs in their forecasts, these are not material to the Group, and accordingly these do not impact the overall goodwill impairment conclusion. Further details of our procedures and findings on the goodwill impairment assessment are included in our key audit matters below.

We also challenged the directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures. We concluded that there was not a material impact of climate-related risks to the business over the short to medium term covered by the going concern and viability periods.

Based on our work, we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter materially.

Independent auditor's report to the members of Morgan Sindall Group plc continued

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 that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the audit committee
Contract revenue and margin recognition (including valuation of contract assets, unagreed income and contract liabilities) Revenue: £4,117.7m (2022: £3,612.2m) Operating profit: £140.6m (2022: £88.3m) Contract assets: £270.6m (2022: £294.6m) Contract liabilities: £95.8m (2022: £74.2m) *Refer to the audit committee report (page 126); accounting policies (page 187); and notes 1 (page 193) and 14 (page 205) of the consolidated financial statements.* The Group recognises revenue over time in the Construction, Infrastructure, Fit Out, Property Services, Urban Regeneration and Partnership Housing (in respect of pre-let, forward-sold developments) divisions. The Group also recognises revenue under the point-in-time method in the Partnership Housing and Urban Regeneration divisions. There is a risk that revenue recognised over time is materially misstated as there is significant judgement involved in determining the inputs that drive contract revenue and margin recognition (e.g. forecast revenue, recoverability of unagreed income, and forecast costs to complete). Therefore these inputs could be susceptible to management bias or manipulation. There is also a risk that revenue recognised under the point-in-time method is recorded in the incorrect period, either due to cut-off error or management bias resulting in a material misstatement.	**Contract revenue and margin recognised over time** We worked together with our component teams to perform a risk assessment of the contract population and selected a sample of higher-risk contracts (based on value and/or complexity) across the Group, and obtained an understanding of the: (1) contract terms; (2) key operational or commercial issues; (3) judgements impacting the contract position; and (4) contract revenue and margin recognised. Factors we considered when determining higher-risk contracts to select included (1) the size of the contract, (2) contracts with significant unagreed income amounts, (3) low-margin and loss-making contracts, contracts with unusual margins or contracts with a significant deterioration in margin, and (4) stage of completion. Our audit approach for higher-risk contracts has been outlined below: ▪ Performed walkthroughs of the significant classes of revenue transactions recognised over time and assessed the design effectiveness of key controls. ▪ Discussed management's contract risk tracker with divisional management and the Group commercial director. ▪ Performed site visits at a selection of higher-risk contracts in order to corroborate the contract positions in person through review of the operations and discussions with contract personnel on site to form an independent view on the judgements taken. ▪ Detailed review of the signed contract agreements to understand the commercial terms and review of any legal correspondence or expert advice that has been obtained to support any contract positions recorded. ▪ Assessed the appropriateness of supporting evidence and the requirements of IFRS 15 and the Group's accounting policies (e.g. where contracts include additional entitlements for variations and claims, both for and against the Group). ▪ Assessed the appropriateness of the accruals at year end to check these have been incurred and not materially overstated/understated. ▪ Challenged the level of unagreed income or contract assets and the adequacy of the evidence (e.g. future certifications and cash receipts) to assess their recognition and recoverability. ▪ Reviewed contract asset balances and challenged management on the recovery of aged balances at the year end which have not been provided for, including consideration of counterparty risk. ▪ Assessed the reasonableness of calculations of estimated costs to complete, which included understanding the risks/outstanding works on the contract, the impact of any delays or other delivery issues and the related provisions for cost escalations that have been recognised. ▪ Assessed the appropriateness of cost allocations across contracts including evaluation of whether there has been any manipulation of costs between profit-making and loss-making contracts.	Based on our audit procedures performed, we concluded that the recognition of revenue (including the valuation of contract assets, unagreed income and contract liabilities) was appropriate, and the key judgements made by management are consistent with the Group's accounting policies. The presentation and disclosure of revenue, contract assets and contract liabilities are materially correct and appropriate.

Risk	Our response to the risk	Key observations communicated to the audit committee
	▪ Challenged the rationale for material provisions held at a contract/division level and concluded if these are appropriate. ▪ Challenged the level of onerous contract provisions recognised for loss-making contracts as well as any cost contingencies on the remaining contracts at year end. ▪ Assessed the correlation between revenue, contract assets and cash balances using data analytical tools or through other substantive test of detail procedures. ▪ Reviewed material unusual journal entries recorded to assess whether these have been properly authorised, are appropriately substantiated and are for a valid business purpose. **Contract revenue and margin recognised under the point-in-time method** ▪ Performed walkthroughs of the revenue recognition process under the point-in-time method and assessed the design effectiveness of key controls. ▪ Reviewed signed contract agreements to understand the commercial terms and ensure the appropriate revenue recognition method is applied in line with the requirements of IFRS 15 and the Group's accounting policies. ▪ Tested a sample of transactions by agreeing to contracts, bank receipts and obtaining evidence of fulfilment of performance obligations. ▪ Performed cut-off testing to assess whether revenue recorded either side of the year end is included in the correct accounting period. ▪ Reviewed material unusual journal entries recorded in relation to revenue recognised under the point-in-time method to assess whether these have been properly authorised, are appropriately substantiated and are for a valid business purpose. We performed full and specific scope audit procedures over 100% of the Group's revenue.	

Independent auditor's report to the members of Morgan Sindall Group plc continued

Risk	Our response to the risk	Key observations communicated to the audit committee
Recoverability and valuation of inventory balances held Inventory: £344.7m (2022: £333.9m) *Refer to accounting policies (page 189) and note 13 of the consolidated financial statements (page 205).* Partnership Housing and Urban Regeneration deliver housing and regeneration schemes respectively. During construction, the cost of work in progress is held as inventory prior to it being recognised as cost of sales under contract accounting. This comprises land, raw materials, direct labour, other direct costs and related overheads. Inventory is held at the lower of cost and net realisable value. Therefore there is a high degree of management judgement required to determine the valuation of inventory pertaining to land and developments under construction. There is a risk that the carrying value of inventory held by the Group is overstated in the year-end Group accounts if management's assessment of the net realisable value is based on inappropriate assumptions.	▪ Performed procedures to assess the ownership of the inventories held (e.g. review of sale purchase agreements and land title deeds) in order to evaluate whether the Group has appropriate title over the inventory held. ▪ Performed a walkthrough of the 'net realisable value' impairment analysis and calculation process and evaluated how management look for indicators of inventory impairment. ▪ Reviewed a sample of planning permissions obtained or submitted as well as environmental assessment reports (where relevant) to assess their impact on the inventory on hand at year end. ▪ Assessed the nature of costs capitalised in the year-end inventory balance by vouching a sample of these back to supporting documentary evidence, ensuring these meet the criteria for capitalisation and have been charged to the correct project. ▪ Challenged the costs to complete by agreeing a sample of items to supporting documentation (e.g. subcontractor quotes, actual invoices issued, contracts executed, management reports) and through enquiry of the commercial teams. ▪ Recalculated the profit recognised for the year based on forecast revenue and costs. ▪ For Partnership Housing, compared the forecast sale prices and price per sq ft of the unsold units in management's forecast to the range of prices achieved on the units completed and exchanged, or compared prices achieved at equivalent competitor sites where possible. ▪ Inspected site plans and for Partnership Housing, reviewed a sample of post-year-end sales (where available) to evaluate management's forecast sale prices. ▪ Evaluated the adequacy of disclosure in financial statements, particularly where the inventories are written down to the fair values less costs to sell.	Based on our audit procedures we have concluded that the inventory balances are not materially misstated.

Risk	Our response to the risk	Key observations communicated to the audit committee

Impairment of goodwill and investment in subsidiary undertakings (parent only)
Goodwill: £217.7m (2022: £217.7m)
Parent Company's investment in subsidiary undertakings: £429.1m (2022: £459.6m)
Refer to the audit committee report (page 126); accounting policies (page 189); note 10 of the consolidated financial statements (page 200); and note 2 of the Company financial statements (page 220).
Intangible assets with an indefinite useful life must be evaluated for impairment annually, or whenever indicators of impairment are noted per IAS 36.
Due to the degree of estimation involved in calculating the expected future cash flows from cash-generating units (CGUs) and determining the appropriate long-term growth rates and discount rates specific to each CGU, we have identified a significant risk regarding the assessment of any impairment against the goodwill carrying values, as well as the identification of any indicators of impairment.
There is also a risk that the recoverable amount of the investment in subsidiary undertakings may be less than the investment balance on the Parent Company's statement of financial position.
	▪ Performed a walkthrough of the impairment analysis and calculation process and evaluated the identification of CGUs performed by management.
	▪ Assessed and challenged the key inputs of the forecast cash flows at the CGU level. As part of these procedures we:
	  ▪ challenged the discount rate used by obtaining the underlying data used in the calculation and substantiating this against reputable independent assessments with the support of our EY valuation specialists;
	  ▪ validated the growth rates assumed by comparing them to economic and industry forecasts and using the support of our EY valuation specialists, where required; and
	  ▪ challenged management on the achievability of the cash flow forecasts and assessed the projected financial information against results achieved to date and other market data to assess the robustness of management's forecasting process. This included considering the impact of other relevant economic and social environmental factors such as inflation and climate change on future cash flows.
	▪ Analysed the historical forecasting accuracy (budgets to actual results) to determine whether forecast cash flows are reliable based on past experience especially factoring in any anomalies.
	▪ Understood the commercial challenges for each CGU and challenged/evaluated how these have been incorporated into management's assessment.
	▪ Assessed the methodology applied by management in allocating the Construction & Infrastructure goodwill between the Construction and Infrastructure CGUs due to the segment realignment in the current year, to determine compliance with the requirements of IAS 36.
	▪ Assessed the carrying values of each CGU considered by management in their impairment models to determine the appropriateness of the assets and liabilities included, and the methodology used for allocation of any corporate or shared assets between the CGUs.
	▪ Performed sensitivity analysis by changing key assumptions in management's model to see the impact on the headroom between carrying value and fair value (including combining the effects of different sensitivities).
	▪ Assessed the appropriateness of the net asset values and component-specific cash flows for each of the investment in subsidiary undertakings held by the Parent Company, factoring in any audit adjustments or appropriate sensitivities to conclude on the available headroom.
	▪ Performed a comparison between the carrying value of the CGUs against the value of these CGU investments on the Parent Company's statement of financial position. We also considered the carrying value of the CGUs in the context of the market capitalisation of the Group.
	▪ Considered the appropriateness of the related financial statement disclosures, particularly with regard to any impairment recognised (if the carrying value of CGU exceeds the value-in-use) or the justification of why the value of goodwill exceeds the market capitalisation of the Group.
		Based on our audit procedures we have concluded that goodwill is not impaired. The disclosures relating to goodwill are appropriate.
		We have also concluded that the carrying value of investment in subsidiary undertakings is not materially misstated.

Independent auditor's report to the members of Morgan Sindall Group plc continued

Risk	Our response to the risk	Key observations communicated to the audit committee

Building safety provision (and related exceptional item)
Exceptional building safety charge recognised within Group: £1.9m (2022: £39.1m)
Exceptional building safety credit recognised within Group's share of net profit of joint ventures: (£4.1m) (2022: £9.8m charge)
Refer to the audit committee report (page 126); accounting policies (page 192); and note 4 of the consolidated financial statements (page 196).
There is a risk that the provision recognised to reflect the legal and constructive obligations relating to building safety matters, including reimbursement of grants provided by the Building Safety Fund, is misstated given the value of the provision and level of estimation, together with risks around completeness.
The key judgements and estimates in the provision relate to forecasting the cost of rectifying these fire safety defects and cladding issues. There is uncertainty in this given that the issues and/or the buildings identified may not be complete, as well as the rectification cost being unknown until work is completed.
	▪ Obtained management's analysis on the identification of any additional projects captured by the building safety regulations within the Group during the year, which included the calculation of any additions to the provision recognised. We assessed the methodology used and the competence of those involved in its calculation. Where management involves an external specialist, we assessed the scope of their work and their objectivity.
	▪ Assessed whether any events or conditions in the current year require additions to the building safety provision. As part of these procedures we:
	  ▪ understood whether there have been any changes to the building safety regulations which may result in additional developments or properties being captured in scope for remediation works.
	  ▪ identified the risk of new claims against the Group. This included enquiry to management, review of litigation and claims logs and review of insurance notifications and claims received;
	  ▪ considered our knowledge of previously known defects gained from other areas of the audit (e.g. work on litigation and claims, review of Board minutes etc.) and from the results of a retrospective review of remediation works carried out during the year; and
	  ▪ undertook press and internet searches for reports of building safety issues in properties developed by the Group.
	▪ Assessed the accuracy of the provisions utilised during the year through testing a sample of the properties that have undergone remediation work.
	▪ Assessed the appropriateness of releases from the provision during the year and verified that no further exposure to the Group on such properties exists by review of documentation evidencing the completion of remediation works or relinquishment of the Group's obligations.
	▪ Challenged whether key inputs and assumptions used to estimate the expected cost of rectifying the identified issues remain appropriate and whether such cost estimates have been appropriately adjusted for changes to macroeconomic developments such as inflation and increase in interest rates. For newly identified provisions or material changes to existing provisions, we made enquiries of relevant project managers and legal personnel to understand the basis of the assumptions, and verified the cost assumptions to the extent possible by agreeing to subcontractor quotations for remedial works obtained by the Group, or reports from third parties engaged to identify and investigate the extent of the issues.
	▪ Assessed the appropriateness of sensitivity analysis disclosed in the financial statements.
	▪ Performed a walkthrough of the process management have undertaken to determine any new provisions during the year, and monitored and reassessed the existing provisions, including updating our understanding of any key controls in place.
	▪ Held discussions with the Group commercial director and other key management personnel to understand the latest correspondence with the government in relation to the developers' pledge and developer remediation contract and the obligations arising from this, and checked whether any changes to the obligations are appropriately reflected by management in the provisions recognised.
	▪ Reviewed relevant correspondence with the Department for Levelling Up, Housing and Communities (DLUHC), including any changes to their assessment of the Building Safety Fund grants the Group is expected to reimburse them for.
	▪ Assessed whether the newly created provisions during the year continue to meet the definition of an 'exceptional item' to be drawn out separately in the financial statements. We also assessed whether movements (such as releases and/or third-party recoveries from insurers or other contractors/developers) are also recognised as an 'exceptional item'.
	▪ Challenged whether insurance receivable balances recognised met the IFRS recognition criteria of being 'virtually certain' to be received, and obtained evidence to support this assessment.
	▪ Reviewed and assessed the appropriateness of the related disclosures in the Group financial statements.
		Based on our audit procedures we have concluded that the building safety provision is appropriate.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £7m (2022: £6m), which is 5% (2022: 5%) of the Group's profit before tax. We believe that profit before tax provides us with an appropriate basis for materiality and is the most relevant measure for stakeholders as it is a focus of both management and investors. In the current year, we did not adjust profit before tax for the exceptional building safety charge, unlike in the prior year, because it is not a significant one-off item this year.

We determined materiality for the Parent Company to be £4m (2022: £4m), which is 2% (2022: 2%) of equity.

During the course of our audit, we reassessed initial materiality and found no reason to change from our original assessment at planning.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2022: 50%) of our planning materiality, namely £5m (2022: £3m). We have increased the percentage of performance materiality used as we anticipated a reduction in the number of misstatements compared to 2022 and our assessment of the control environment supports this.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1.0m to £3.4m (2022: £0.6m to £1.8m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the audit committee that we would report to them all uncorrected audit differences in excess of £0.4m (2022: £0.3m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on the inside front cover to page 166, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

Independent auditor's report to the members of Morgan Sindall Group plc continued

Matters on which we are required to report by exception

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

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

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

Corporate governance statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Group and Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 96.
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on pages 96 and 97.
- Director's statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on page 96.
- Directors' statement on fair, balanced and understandable set out on page 166.
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 69 to 79.
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 128 to 131.
- The section describing the work of the audit committee set out on pages 124 to 131.

Responsibilities of directors

As explained more fully in the directors' responsibility statement set out on page 166, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (UK-adopted International Accounting Standards, the Companies Act 2006 and the UK Corporate Governance Code), the Building Safety Act and the relevant tax compliance regulations in the UK.

- We understood how Morgan Sindall Group plc is complying with those frameworks by making enquiries of management at Group level and within the divisions, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of Board minutes and papers provided to the Board and audit committee, noting the strong emphasis on transparency and honesty in the Group's culture and the levels of oversight that the Board and Group management have over each division despite the decentralised operating model of the Group.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management in each division to understand where it considered there was a susceptibility to fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management at Group level and within the divisions monitor those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures are set out in the key audit matters section of this report and were designed to provide reasonable assurance that the financial statements were free from fraud and error.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing at each component in the scope of our Group audit with a focus on journals indicating unusual transactions based on our understanding of the business, enquiries of Group and divisional management, and focused testing as referred to in the key audit matters section above. In addition, we completed procedures to conclude on the compliance of the disclosures in the annual report and accounts with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code.

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

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the Company on 6 May 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is three years, covering the years ending 31 December 2021 to 31 December 2023.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

Peter McIver (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

21 February 2024

Consolidated income statement

for the year ended 31 December 2023

	Notes	2023 £m	2022 £m
Revenue	1	**4,117.7**	3,612.2
Cost of sales		**(3,672.9)**	(3,241.3)
Gross profit		**444.8**	370.9
Analysed as:			
Adjusted gross profit		**446.7**	410.0
Exceptional building safety items	4	**(1.9)**	(39.1)
Administrative expenses		**(324.0)**	(287.6)
Share of net profit of joint ventures	12	**18.2**	4.5
Other operating income		**1.6**	0.5
Operating profit		**140.6**	88.3
Analysed as:			
Adjusted operating profit		**141.3**	139.2
Exceptional building safety items	4	**2.2**	(48.9)
Amortisation of intangible assets	10	**(2.9)**	(2.0)
Finance income	6	**10.8**	2.3
Finance expense	6	**(7.5)**	(5.3)
Profit before tax		**143.9**	85.3
Analysed as:			
Adjusted profit before tax		**144.6**	136.2
Exceptional building safety items	4	**2.2**	(48.9)
Amortisation of intangible assets	10	**(2.9)**	(2.0)
Tax	7	**(26.2)**	(24.4)
Profit for the year		**117.7**	60.9
Attributable to:			
Owners of the Company		**117.7**	60.9
Earnings per share			
Basic	9	**254.2p**	132.7p
Diluted	9	**250.4p**	130.4p

There were no discontinued operations in either the current or comparative years.

Consolidated statement of comprehensive income

for the year ended 31 December 2023

	2023 £m	2022 £m
Profit for the year	**117.7**	60.9
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange movement on translation of overseas operations	**0.2**	2.1
	0.2	2.1
Other comprehensive income	**0.2**	2.1
Total comprehensive income	**117.9**	63.0
Attributable to:		
Owners of the Company	**117.9**	63.0

Consolidated statement of financial position

at 31 December 2023

	Notes	2023 £m	2022 £m
Assets			
Goodwill and other intangible assets	10	218.6	221.2
Property, plant and equipment	11	86.0	74.8
Investment property		0.8	0.8
Investments in joint ventures	12	106.6	84.0
Non-current assets		412.0	380.8
Inventories	13	344.7	333.9
Contract assets	14	270.6	294.6
Trade and other receivables	15	461.6	353.0
Shared equity loan receivables		–	0.4
Cash and cash equivalents	26	541.3	431.7
Current assets		1,618.2	1,413.6
Total assets		2,030.2	1,794.4
Liabilities			
Contract liabilities	14	(95.8)	(74.2)
Trade and other payables	16	(1,087.0)	(963.2)
Current tax liabilities		(1.9)	(5.6)
Lease liabilities	18	(19.1)	(16.0)
Borrowings	26	(80.6)	(77.1)
Provisions	19	(76.7)	(55.1)
Current liabilities		(1,361.1)	(1,191.2)
Net current assets		257.1	222.4
Trade and other payables	16	(28.2)	(37.3)
Lease liabilities	18	(44.7)	(40.9)
Retirement benefit obligation	17	–	(0.2)
Deferred tax liabilities	7	(8.7)	(6.8)
Provisions	19	(19.4)	(21.8)
Non-current liabilities		(101.0)	(107.0)
Total liabilities		(1,462.1)	(1,298.2)
Net assets		568.1	496.2
Equity			
Share capital	21	2.4	2.4
Share premium account		56.0	55.9
Other reserves	22	1.3	1.1
Retained earnings	23	508.4	436.8
Equity attributable to owners of the Company		568.1	496.2
Total equity		568.1	496.2

The consolidated financial statements of Morgan Sindall Group plc (Company number: 00521970) were approved by the Board on 21 February 2024 and signed on its behalf by:

John Morgan
Chief Executive

Steve Crummett
Finance Director

Consolidated cash flow statement

for the year ended 31 December 2023

	Notes	2023 £m	2022 £m
Operating activities			
Operating profit		140.6	88.3
Adjusted for:			
Exceptional building safety items	4, 19	13.7	48.9
Amortisation of intangible assets	10	2.9	2.0
Underlying share of net profit of equity-accounted joint ventures	12	(14.1)	(14.3)
Depreciation	11	26.8	22.9
Share-based payments	5, 24	6.6	9.7
Gain on disposal of property, plant and equipment		(0.1)	(0.5)
Movement in fair value of shared equity loan receivables		–	(0.4)
Impairment of investments	3, 12	–	0.9
Repayment of shared equity loan receivables		0.4	1.5
Increase/(decrease) in provisions excluding exceptional building safety items	19	1.4	(19.5)
Additional pension contributions	17	(0.2)	–
Operating cash inflow before movements in working capital		178.0	139.5
Increase in inventories		(10.8)	(45.4)
Decrease/(increase) in contract assets		24.0	(62.0)
Increase in receivables		(107.8)	(24.4)
Increase/(decrease) in contract liabilities		21.6	(4.3)
Increase in payables		116.2	71.6
Movements in working capital		43.2	(64.5)
Cash inflow from operations		221.2	75.0
Income taxes paid		(25.2)	(20.3)
Net cash inflow from operating activities		196.0	54.7
Investing activities			
Interest received		10.0	1.8
Dividends from joint ventures	12	1.6	1.4
Proceeds on disposal of property, plant and equipment		2.0	0.6
Purchases of property, plant and equipment	11	(14.3)	(10.5)
Purchases of intangible fixed assets	10	(0.3)	(1.3)
Capital advances to joint ventures[1]	12	(44.2)	(18.3)
Capital repayment from joint ventures[1]	12	34.2	34.6
Net cash (outflow)/inflow from investing activities		(11.0)	8.3
Financing activities			
Interest paid		(2.4)	(1.8)
Dividends paid	8	(48.1)	(43.5)
Repayments of lease liabilities	18	(21.2)	(17.2)
Repayment of borrowings		–	(0.4)
Proceeds on issue of share capital	21	0.1	10.2
Payments by the Trust to acquire shares in the Company	23	(11.3)	(15.7)
Proceeds on exercise of share options		4.0	1.6
Net cash outflow from financing activities		(78.9)	(66.8)
Net increase/(decrease) in cash and cash equivalents		106.1	(3.8)
Cash and cash equivalents at the beginning of the year		354.6	358.4
Cash and cash equivalents at the end of the year	26	460.7	354.6

Cash and cash equivalents presented in the consolidated cash flow statement include bank overdrafts. See note 26 for a reconciliation to cash and cash equivalents presented in the consolidated statement of financial position.

1 The 2022 figure was presented as part of 'net decrease in loans to joint ventures' in the 2022 financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2023

	Notes	Share capital £m	Share premium account £m	Other reserves (note 22) £m	Retained earnings (note 23) £m	Total equity £m
1 January 2022		2.3	45.8	(1.0)	427.1	474.2
Profit for the year		–	–	–	60.9	60.9
Other comprehensive income		–	–	2.1	–	2.1
Total comprehensive income		–	–	2.1	60.9	63.0
Share-based payments	24	–	–	–	9.7	9.7
Tax relating to share-based payments	7	–	–	–	(3.3)	(3.3)
Issue of shares at a premium	21	0.1	10.1	–	–	10.2
Exercise of share options		–	–	–	1.6	1.6
Purchase of shares in the Company by the Trust		–	–	–	(15.7)	(15.7)
Dividends paid	8	–	–	–	(43.5)	(43.5)
1 January 2023		**2.4**	**55.9**	**1.1**	**436.8**	**496.2**
Profit for the year		–	–	–	117.7	117.7
Other comprehensive income		–	–	0.2	–	0.2
Total comprehensive income		–	–	0.2	117.7	117.9
Share-based payments	24	–	–	–	6.6	6.6
Tax relating to share-based payments	7	–	–	–	2.7	2.7
Issue of shares at a premium	21	–	0.1	–	–	0.1
Purchase of shares in the Company by the Trust		–	–	–	(11.3)	(11.3)
Exercise of share options		–	–	–	4.0	4.0
Dividends paid	8	–	–	–	(48.1)	(48.1)
31 December 2023		**2.4**	**56.0**	**1.3**	**508.4**	**568.1**

Accounting policy information

for the year ended 31 December 2023

Reporting entity

Morgan Sindall Group plc (the 'Company' or 'Ultimate Parent') is a public limited company, domiciled and incorporated in the United Kingdom. Its registration number is 00521970 and its registered address is Kent House, 14–17 Market Place, London, W1W 8AJ. The nature of its operations and principal activities along with those of its subsidiaries (together the 'Group') are set out in note 2 and in the strategic report on page 7 and pages 10 and 11. The Company did not change its name during the year ended 31 December 2023 or the year ended 31 December 2022.

Basis of preparation

(a) Statement of compliance

The financial statements have been prepared on a going concern basis in accordance with the requirements of the Companies Act 2006 and UK-adopted international accounting and reporting standards.

(b) Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention, except where otherwise indicated.

(c) Going concern

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Group and Company can continue in operational existence during the going concern period, which the directors have determined to be until 31 March 2025.

As at 31 December 2023, the Group held cash of £541.3m, including £26.1m (2022: £38.0m) which is the Group's share of cash held within jointly controlled operations, and total overdrafts repayable on demand of £80.6m (together net cash of £460.7m). Should further funding be required, the Group has significant committed financial resources available including unutilised bank facilities of £180m (2022: £180m), of which £165m matures in October 2026 and £15m matures in June 2026. The Group's secured order book at 31 December 2023 is £8.9bn (2022: £8.5bn), of which £3.5bn relates to the 12 months ending 31 December 2024.

The directors have reviewed the Group's forecasts and projections for the going concern period, including sensitivity analysis (detailed on pages 96 and 97, including reduced revenues, margins, a working capital deterioration and project delays) to assess the Group's resilience to the potential financial impact on the Group of any plausible losses of revenue or operating profit which could arise from one of the principal risks to the business occurring (these risks are discussed on pages 69 to 77 and include the directors' assessment of the impact of climate change).

The analysis also includes a reasonable worst-case scenario in which the Group's principal risks manifest in aggregate to a severe but plausible level involving the aggregation of the impacts of a number of these risks. The modelling showed that the Group would remain profitable throughout the going concern period and there is considerable headroom above lending facilities such that there would be no expected requirement for the Group to utilise the bank facility, which underpins the going concern assumption on which these financial statements have been prepared. As part of the sensitivity analysis, the directors also modelled a scenario that stress-tests the Group's forecasts and projections, to determine the scenario in which the headroom above the committed bank facility would be exceeded. This model showed that the Group's operating profit would need to deteriorate substantially for the headroom to exceed the committed bank facility. The directors consider there is no plausible scenario where cash inflows would deteriorate this significantly. However, as part of its analysis, the Board also considered further mitigating actions at its discretion, such as a reduction in investments in working capital, to improve the position identified by the reasonable worst-case scenario. In all scenarios, including the reasonable worst case, the Group is able to comply with its financial covenants, operate within its current facilities, and meet its liabilities as they fall due.

Accordingly, the directors consider there to be no material uncertainties that may cast significant doubt on the Group's ability to continue to operate as a going concern. They have formed a judgement that there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the going concern period, which they determine to be until 31 March 2025. For this reason, they continue to adopt the going concern basis in the preparation of these financial statements. The period until 31 March 2025 has been assessed as appropriate following consideration of the budgeting cycles and typical contract lengths undertaken across the Group.

(d) Functional and presentation currency

These consolidated financial statements are presented in pounds sterling which is the Group's presentational currency and the Company's functional currency. All financial information, unless otherwise stated, has been rounded to the nearest £0.1m.

(e) Climate change risk

While the Group is committed to achieve its net zero emissions target by 2030 and 2045, the governmental and societal responses to climate change risks are still developing and therefore the Group is currently unable to determine the full future economic impact of climate change risks on their business model to achieve this. As such, the potential impacts of climate change risk are not fully incorporated in these financial statements.

Accounting policy information continued

(f) Adoption of new and amended standards and interpretations

(i) New and amended accounting standards adopted by the Group

During the year, the Group has adopted the following new and amended standards and interpretations. Their adoption has not had any significant impact on the accounts or disclosures in these financial statements:

- IFRS 17 'Insurance Contracts'
- Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 'Making Materiality Judgements – Disclosure of Accounting Policies'
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates'
- Amendments to IAS 12 'Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction'
- Amendments to IAS 12 'Income Taxes – International Tax Reform – Pillar Two Model Rules'

(ii) New and amended accounting standards and interpretations which were in issue but were not yet effective and have not been adopted early by the Group

At the date of the financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- Amendments to IFRS 16 'Lease Liability in a Sale and Leaseback'
- Amendments to IAS 1 'Presentation of Financial Statements – Classification of Liabilities as Current or Non-current, and Non-current Liabilities with Covenants'
- Amendment to IAS 7 'Statement of Cash Flows' and IFRS 7 'Financial Instruments: Disclosures – Supplier Finance Arrangements'

The Group is currently assessing the impact of these new and revised 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 the income statement. Any investment retained is recognised at fair value.

(b) Joint arrangements

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

(i) Joint ventures

A joint venture generally involves the establishment of a corporation, partnership or other entity in which each venturer has rights to the net assets of the joint venture and joint control over strategic, financial and operating decisions. The results, assets and liabilities of jointly controlled entities are incorporated in the financial statements using the equity method of accounting.

Goodwill relating to a joint venture that is acquired directly is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group's investments in joint ventures are reviewed to determine whether any additional impairment loss in relation to the net investment in the joint venture is required, and if so it is written off in the period in which those circumstances are identified. When there is a change recognised directly in the equity of the joint venture, the Group recognises its share of any change and discloses this, where applicable, in the statement of comprehensive income.

Where the Group's share of losses exceeds its equity-accounted investment in a joint venture, the carrying amount of the equity interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations. Appropriate adjustment is made to the results of joint ventures where material differences exist between a joint venture's accounting policies and those of the Group.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(ii) Joint operations

Construction contracts carried out as a joint arrangement without the establishment of a legal entity are joint operations. The Group's share of the results and net assets of these joint operations are included under each relevant heading in the income statement and the statement of financial position.

(c) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expense arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investments are eliminated to the extent of the Group's interest in that investment. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Revenue and margin recognition

Revenue and margin are recognised as follows:

(a) Construction and infrastructure contracts

A significant portion of the Group's revenue is derived from construction and infrastructure services contracts. These services are provided to customers across a wide variety of sectors and the size and duration of the contracts can vary significantly from a few weeks to more than 10 years.

The majority of contracts are considered to contain only one performance obligation for the purposes of recognising revenue. While the scope of works may include a number of different components, in the context of construction and infrastructure services activities, these are usually highly interrelated and produce a combined output for the customer.

Contracts are typically satisfied over time. For fixed-price construction contracts, progress is measured through a valuation of the works undertaken by a professional quantity surveyor, including an assessment of any elements for which a price has not yet been agreed, such as changes in scope. For cost-reimbursable infrastructure services contracts, progress is measured based on the costs incurred to date as a proportion of the estimated total cost and an assessment of the final contract price payable.

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

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

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

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

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

(b) Service contracts

Service contracts include design, maintenance and management services. Contracts are typically satisfied over time and revenue is measured through an assessment of time incurred and materials utilised as a proportion of the total expected or percentage of completion depending upon the nature of the service.

(c) Sale of land and development properties

The Group derives a significant portion of revenue from the sale of land, and the development and sale of residential and commercial properties.

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

Revenue from the sale of land, residential and commercial properties is measured at the transaction price agreed in the contract with the customer. While deferred payment terms may be agreed in rare circumstances, the deferral never exceeds 12 months. The transaction price is therefore not adjusted for the effects of a significant financing component. The Group no longer utilises shared equity loan schemes for the sale of residential properties.

In order to recognise the profit, it is necessary to estimate the total costs of a development. These estimates take account of any uncertainties in the cost of work packages that have not yet been let and materials that 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.

Accounting policy information continued

(d) Contract balances

Contract assets

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

Contract liabilities

Contract liabilities primarily relate to the advance consideration received from customers in respect of performance obligations which have not yet been fully satisfied and for which revenue has not been recognised. Contract liabilities are recognised as revenue when performance obligation to the customer has been satisfied.

(e) Contract costs

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

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

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

(f) Government grants

Funding received in respect of developer grants, where funding is awarded to encourage the building and renovation of affordable housing, is recognised as a deduction from related expenses 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 income on a legal completion basis when the properties to which it relates are sold.

Government grants are initially recognised as deferred income at fair value when there is reasonable assurance that the Group will comply with the conditions attached and the grants will be received.

Leases

Where the Company is a lessee, a right-of-use asset and lease liability are recognised at the outset of the lease other than those that are less than one year in duration or of a low value.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date based on the Group's expectations of the likelihood of lease extension or break options being exercised. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable.

The lease liability is subsequently adjusted to reflect imputed interest, payments made to the lessor and any lease modifications.

The right-of-use asset is initially measured at cost, which comprises the amount of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the Group and an estimate of any costs that are expected to be incurred at the end of the lease to dismantle or restore the asset.

The right-of-use assets are presented within the property, plant and equipment line in the statement of financial position and depreciated in accordance with the Group's accounting policy on property, plant and equipment. The amount charged to the income statement comprises the depreciation of the right-of-use asset and the imputed interest on the lease liability.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Finance income and expense

Finance income and expense is recognised using the effective interest method.

Income tax

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

Current tax is the Group's expected tax liability on taxable profit for the year using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Taxable profit differs from that reported in the income statement because it is adjusted for items of income or expense that are assessable or deductible in other years and is adjusted for items that are never assessable or deductible.

Current tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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

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

Goodwill and other intangible assets

Goodwill arises on business combinations and represents the excess of the cost of an acquisition over the Group's share of the identifiable net assets of the acquiree at the acquisition date. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and equity interests issued by the Group in exchange for control of the acquiree. Consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed in administrative expenses as incurred. All identifiable assets and liabilities acquired and contingent liabilities assumed are initially measured at their fair values at the acquisition date.

Where the cost is less than the Group's share of the identifiable net assets, the difference is immediately recognised in the income statement as a gain from a bargain purchase.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK Generally Accepted Accounting Practice (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 over their estimated useful lives using the straight-line method on the following basis:

- freehold land — not depreciated
- plant and equipment — between 8.3% and 33% per year
- fixtures and fittings — over the period of the lease
- right-of-use assets — over the period of the lease

Residual values of property, plant and equipment are reviewed and updated annually.

Gains and losses on disposal are determined by comparing the proceeds from disposal against the carrying amount and are recognised in the income statement.

Investment property

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in the income statement for the period in which they arise.

Shared equity loan receivables

The Group has granted loans under shared equity home ownership schemes allowing qualifying 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 and loss (FVTPL) under IFRS 9. Fair value movements are recognised in operating profit and 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.

Accounting policy information continued

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Further disclosures relating to the impairment of non-financial assets are provided in note 10, 'Goodwill and other intangible assets'.

Trade receivables

Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method with an appropriate allowance for estimated irrecoverable amounts recognised in the income statement. In accordance with IAS 1, trade receivables are recognised as current when the Group expects to realise the assets in its normal operating cycle.

Cash and cash equivalents

Cash and cash equivalents can include cash in hand, demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates to their fair value.

Bank borrowings are generally considered to be financing activities. However, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents for the purpose of presentation in the consolidated cash flow statement. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

Trade payables

Trade payables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Retirement benefit schemes

(a) Defined contribution plan

A defined contribution plan is a post-retirement benefit plan under which the Group pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. The Group recognises payments to defined contribution pension plans as staff costs in the income statement as and when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction on future payments is available.

(b) Defined benefit plan

A defined benefit plan is any post-retirement plan other than a defined contribution plan. For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the statement of financial position with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled. Past service cost is recognised in the income statement when the plan amendment or curtailment occurs, or when the Group recognises related restructuring costs or termination benefits, if earlier. Gains or losses on settlement of a defined benefit plan are recognised when the settlement occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories: (i) service costs, which includes current service cost, past service cost and gains and losses on curtailments and settlements; (ii) net interest expense or income; and (iii) remeasurements.

The Group presents service costs within cost of sales and administrative expenses in its consolidated income statement. Net interest expense or income is recognised within finance costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the deficit or surplus in the Group's defined benefit schemes. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the schemes or reductions in future contributions to the schemes.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably. Provisions are recognised for events covered by the Group's captive or self-insurance arrangements, legal claims and restructuring.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement where the reimbursement has met the virtually certain recognition criteria.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Impairment of financial assets

The Group always recognises lifetime expected credit losses for trade receivables, contract assets and loans to joint ventures. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value is expensed in employee benefits expenses on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in note 24).

Derivative financial instruments and hedge accounting

Derivative financial instruments may be used in joint ventures to hedge long-term floating interest rate and Retail Prices Index (RPI) exposures and in Group companies to manage their exposure to foreign exchange rate risk.

Interest rate swaps, RPI swaps and foreign exchange forward contracts are stated in the statement of financial position at fair value. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Where financial instruments are designated as cash flow hedges and are deemed to be effective, gains and losses on remeasurement relating to the effective portion are recognised in equity and gains, and losses on the ineffective portion are recognised in the income statement.

Net investment hedges may be used to hedge exposure on translation of net investments in foreign operations. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. In the event of disposal of a foreign operation, the gains and losses accumulated in other comprehensive income are recognised in the income statement.

There have been no transfers between categories in the fair value hierarchy in the current and preceding year.

Critical accounting judgements and estimates

for the year ended 31 December 2023

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

Critical judgements and estimates in applying the Group's accounting policies

The following are the critical judgements and estimates that the directors have made in the process of applying the Group's accounting policies and that have a significant effect on the amounts recognised in the financial statements:

Revenue recognition – mixed-use schemes (judgement)

The Group acts as developer and/or contractor on a number of mixed-use schemes. In some instances, judgement is required to determine whether the revenue on a particular element of the scheme should be recognised as work progresses (recognised over time) or upon legal completion (recognised at a point in time). A detailed assessment is performed of the contractual agreements with the customer as well as the substance of the transaction to determine if performance obligations have been satisfied. Relevant factors that are considered include the point at which legal ownership of the land passes to the customer, the degree to which the customer can specify the major structural elements of the design prior to construction work commencing, and the degree to which the customer can specify modifications to the major structural elements of the building during construction.

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

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

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

The reference to estimates above is not intended to comply with the requirements of paragraph 125 of IAS 1 'Presentation of Financial Statements' as it is not expected there is a significant risk of a material adjustment to the carrying amount of assets and liabilities within the next financial year. The above is presented as additional disclosure in order to give more detail on the process for revenue and profit recognition for long-term contracts.

Building safety provisions (estimate)

Management has reviewed legal and constructive obligations with regard to remedial work to rectify legacy building safety issues. Where obligations exist, these have been evaluated for the likely cost to address, including repayments of the Building Safety Fund, and an appropriate provision has been created.

The ongoing legislative and regulatory changes in respect of legacy building safety issues create uncertainty around the extent of remediation required for legacy buildings, the liability for such remediation, recoveries from other parties (which would only be recognised when virtually certain to be received) and the time to be considered. This implies inherent uncertainty as to the precise future obligations of the Group in respect of building fire safety issues.

Management has recognised a provision based on its best estimate of the future obligations. However, should the costs of remediation increase by 5%, due to factors such as higher than expected inflation, the impact on the remediation costs would be £1m.

Please see note 20 for further detail.

Notes to the consolidated financial statements

1 Revenue

An analysis of the Group's revenue is as follows:

	2023 £m	2022 £m
Construction contracts	2,804.7	2,409.3
Other services	306.5	267.1
Construction activities revenue	3,111.2	2,676.4
Regeneration activities revenue	1,006.5	935.8
Total revenue	4,117.7	3,612.2

	2023			2022 (re-presented[1])		
	Recognised on performance obligations satisfied over time £m	Recognised on performance obligations satisfied at a point in time £m	Total revenue £m	Recognised on performance obligations satisfied over time £m	Recognised on performance obligations satisfied at a point in time £m	Total revenue £m
Construction	966.6	–	966.6	819.9	–	819.9
Infrastructure	886.7	–	886.7	767.7	–	767.7
Traditional fit out	943.9	–	943.9	844.3	–	844.3
Design and build	161.3	–	161.3	123.2	–	123.2
Fit Out	1,105.2	–	1,105.2	967.5	–	967.5
Property Services	185.2	–	185.2	163.5	–	163.5
Contracting	473.7	–	473.7	329.1	–	329.1
Mixed tenure	177.6	186.2	363.8	105.2	261.9	367.1
Partnership Housing	651.3	186.2	837.5	434.3	261.9	696.2
Urban Regeneration	73.4	111.9	185.3	175.6	68.4	244.0
Inter-segment revenue	(48.8)	–	(48.8)	(46.6)	–	(46.6)
Total revenue	3,819.6	298.1	4,117.7	3,281.9	330.3	3,612.2

1 2022 figures have been re-presented to reflect the separate reporting of the Construction and Infrastructure operating divisions. See note 2.

Notes to the consolidated financial statements continued

2 Business segments

For management purposes, the Group is organised into six operating divisions: Construction, Infrastructure, Fit Out, Property Services, Partnership Housing and Urban Regeneration, and this is the structure of segment information reviewed by the chief operating decision-maker (CODM). The CODM is determined to be the Board of directors and reporting provided to the Board is in line with these six divisions, which have been considered to be the Group's operating segments.

During 2023, the Group restructured internal management reporting to the CODM, including monthly reports, budgets and forecasts, to present the Construction and Infrastructure businesses separately. Under IFRS 8 this change in reporting to the Board triggered the segments to be reported separately.

The six operating divisions' activities are as follows:

- Construction: Morgan Sindall Construction focuses on the education, healthcare, commercial, industrial, leisure and retail markets.
- Infrastructure: Morgan Sindall Infrastructure focuses on the highways, rail, energy, water and nuclear markets. Infrastructure also includes the BakerHicks design activities based out of the UK and Switzerland.
- Fit Out: Overbury plc is focused on fit out and refurbishment in commercial, central and local government offices, as well as further education; Morgan Lovell plc provides office interior design and build services direct to occupiers.
- Property Services: Morgan Sindall Property Services Limited provides response and planned maintenance activities for social housing and the wider public sector.
- Partnership Housing: Lovell Partnerships Limited is focused on working in partnerships with local authorities and housing associations. Activities include mixed-tenure developments, building and developing homes for open market sale and for social/affordable rent, design and build house contracting and planned maintenance and refurbishment.
- Urban Regeneration: Muse Places Limited is focused on transforming the urban landscape through partnership working and the development of multi-phase sites and mixed-use regeneration.

Group activities represent costs and income arising from corporate activities which cannot be meaningfully allocated to the operating segments. These include the costs of the Group Board, treasury management, corporate tax coordination, Group finance and internal audit, insurance management, company secretarial services, Group general counsel services, information technology services, finance income and finance expense.

The Group reports its segmental information as presented below:

Year ended 31 December 2023	Notes	Construction £m	Infrastructure £m	Fit Out £m	Property Services £m	Partnership Housing £m	Urban Regeneration £m	Group activities £m	Eliminations £m	Total £m
External revenue		945.2	876.0	1,104.8	185.2	821.2	185.3	–	–	4,117.7
Inter-segment revenue		21.4	10.7	0.4	–	16.3	–	–	(48.8)	–
Total revenue		966.6	886.7	1,105.2	185.2	837.5	185.3	–	(48.8)	4,117.7
Adjusted operating profit/(loss)	28	25.9	38.5	71.8	(16.8)	30.5	14.8	(23.4)	–	141.3
Amortisation of intangible assets	10	–	–	–	(2.9)	–	–	–	–	(2.9)
Exceptional operating items	4	(11.5)	–	–	–	–	13.7	–	–	2.2
Operating profit/(loss)		14.4	38.5	71.8	(19.7)	30.5	28.5	(23.4)	–	140.6
Finance income										10.8
Finance expense										(7.5)
Profit before tax										143.9
Other information:										
Depreciation		(2.5)	(14.6)	(2.9)	(2.6)	(2.4)	(1.1)	(0.7)	–	(26.8)
Average number of employees		1,430	2,788	1,031	1,105	1,131	97	107	–	7,689

Notes to the consolidated financial statements continued

2 Business segments continued

As restated:

Year ended 31 December 2022	Construction £m	Infrastructure £m	Fit Out £m	Property Services £m	Partnership Housing £m	Urban Regeneration £m	Group activities £m	Eliminations £m	Total £m
External revenue	786.8	758.6	967.5	163.5	691.8	244.0	–	–	3,612.2
Inter-segment revenue	33.1	9.1	–	–	4.4	–	–	(46.6)	–
Total revenue	819.9	767.7	967.5	163.5	696.2	244.0	–	(46.6)	3,612.2
Adjusted operating profit/(loss) (note 28)	22.6	29.5	52.2	4.3	37.4	18.9	(25.7)	–	139.2
Amortisation of intangible assets	–	–	–	(2.0)	–	–	–	–	(2.0)
Exceptional operating items	–	–	–	–	(5.5)	(43.4)	–	–	(48.9)
Operating profit/(loss)	22.6	29.5	52.2	2.3	31.9	(24.5)	(25.7)	–	88.3
Finance income									2.3
Finance expense									(5.3)
Profit before tax									85.3
Other information:									
Depreciation	(5.7)	(8.1)	(3.1)	(1.5)	(2.7)	(0.9)	(0.9)	–	(22.9)
Average number of employees	1,332	2,759	962	949	1,002	93	106	–	7,203

As reported:

Year ended 31 December 2022	Construction & Infrastructure £m	Fit Out £m	Property Services £m	Partnership Housing £m	Urban Regeneration £m	Group activities £m	Eliminations £m	Total £m
External revenue	1,545.4	967.5	163.5	691.8	244.0	–	–	3,612.2
Inter-segment revenue	23.2	–	–	4.4	–	–	(27.6)	–
Total revenue	1,568.6	967.5	163.5	696.2	244.0	–	(27.6)	3,612.2
Adjusted operating profit/(loss) (note 28)	52.1	52.2	4.3	37.4	18.9	(25.7)	–	139.2
Amortisation of intangible assets	–	–	(2.0)	–	–	–	–	(2.0)
Exceptional operating items	–	–	–	(5.5)	(43.4)	–	–	(48.9)
Operating profit/(loss)	52.1	52.2	2.3	31.9	(24.5)	(25.7)	–	88.3
Finance income								2.3
Finance expense								(5.3)
Profit before tax								85.3
Other information:								
Depreciation	(13.8)	(3.1)	(1.5)	(2.7)	(0.9)	(0.9)	–	(22.9)
Average number of employees	4,091	962	949	1,002	93	106	–	7,203

Segment assets and liabilities are not presented as these are not reported to the CODM.

Notes to the consolidated financial statements continued

3 Profit for the year

Profit before tax for the year is stated after charging/(crediting):

	Notes	2023 £m	2022 £m
Depreciation charge:			
Plant, equipment, fixtures and fittings	11	**7.9**	7.1
Right-of-use assets	11	**18.9**	15.8
Government grants received		**(3.1)**	(15.9)
Amortisation of intangible assets	10	**2.9**	2.0
Impairment of investments	12	**–**	0.9

Auditor's remuneration

	2023 £m	2022 £m
Audit of the Company's annual report	**0.4**	0.4
Audit of the Company's subsidiaries and joint ventures	**1.7**	1.6
Total audit fees	**2.1**	2.0
Total non-audit fees	**–**	–
Total audit and non-audit fees	**2.1**	2.0

Non-audit fees totalled £4,865 for the year ended 31 December 2023 (2022: £nil).

4 Exceptional building safety items

	Notes	2023 £m	2022 £m
Net additions on building safety provisions	19	**(18.4)**	(39.1)
Insurance and recoveries recognised in receivables		**16.5**	–
Exceptional building safety charge within cost of sales		**(1.9)**	(39.1)
Exceptional building safety credit/(charge) within joint ventures	12	**4.1**	(9.8)
Total exceptional building safety credit/(charge)		**2.2**	(48.9)

During 2022, the Partnership Housing division signed the developers' pledge ('the pledge') with the Department for Levelling Up, Housing and Communities (DLUHC) setting out the principles under which life-critical fire safety issues on buildings that they have developed of 11 metres and above are to be remediated. A letter was also received from DLUHC requesting information to assess whether it may be appropriate for Urban Regeneration to also commit to the principles of the pledge as part of its commitment to support the remediation of historic cladding and fire safety defects over and above its obligations under the new Building Safety Act. The Group subsequently signed the Developer Remediation Contract in March 2023 on behalf of all of its divisions.

An exceptional charge of £48.9m was recognised in 2022 due to the materiality and irregular nature of creating provisions arising because of the pledge.

In the current year, the legal and constructive obligations related to the pledge (including reimbursement of grants provided by the Building Safety Fund), the Building Safety Act and associated fire safety regulations have been reassessed based on further information. The overall movement in the building safety items is a net credit of £2.2m and is shown separately as an exceptional item consistent with prior-year treatment.

Included in the £2.2m exceptional building safety credit (2022: £48.9m charge) is a £4.1m credit (2022: £9.8m charge) that has been recognised in respect of the Group's share of constructive and legal obligations to remediate legacy building safety issues within joint ventures, and this has been recognised within the Group's share of net profit of joint ventures. The remaining net charge of £1.9m (2022: £39.1m) has been recognised in cost of sales.

At the reporting date, the Group had not yet made any reimbursements to the Building Safety Fund for amounts previously granted and drawn on any of the developments for which the Group has taken responsibility. As notified by the DLUHC, any repayments will only be requested upon final completion of all the relevant works. On this basis, any repayments are only likely to commence towards the middle of 2024 at the earliest.

Notes to the consolidated financial statements continued

5 Staff costs

	Notes	2023 £m	2022 £m
Wages and salaries		536.6	507.3
Social security costs		64.7	62.2
Other pension costs	17	22.1	22.9
Share options expense	24	6.6	9.7
		630.0	602.1

6 Finance income and expense

	Notes	2023 £m	2022 £m
Interest income on bank deposits		10.8	2.3
Finance income		10.8	2.3
Interest expense on lease liabilities	18	(2.5)	(1.9)
Loan arrangement and commitment fees		(2.0)	(2.2)
Discount unwind on deferred land payments		(3.0)	(1.2)
Finance expense		(7.5)	(5.3)
Net finance income/(expense)		3.3	(3.0)

7 Tax

Tax expense for the year

	2023 £m	2022 £m
Current tax:		
Current year	16.9	25.0
Adjustment in respect of prior years	4.7	8.5
	21.6	33.5
Deferred tax:		
Current year	13.5	–
Adjustment in respect of prior years	(8.9)	(9.1)
	4.6	(9.1)
Tax expense for the year	26.2	24.4

UK corporation tax is calculated at 23.5% (2022: 19.0%) of the estimated taxable profit for the year.

Notes to the consolidated financial statements continued

7 Tax continued

The table below reconciles the tax charge for the year to tax at the UK statutory rate:

	Notes	2023 £m	2022 £m
Profit before tax		**143.9**	85.3
Less: underlying post-tax share of profits from joint ventures	12	**(14.1)**	(14.3)
		129.8	71.0
UK corporation tax rate		**23.5%**	19.0%
Income tax expense at UK corporation tax rate		**30.5**	13.5
Tax effect of:			
Adjustments in respect of prior years:			
Change to tax base cost of goodwill		**–**	(1.1)
Relating to exceptional items		**(2.0)**	–
Other		**(2.2)**	0.5
Expenses for which no tax relief is recognised:			
Proportion of exceptional items		**(1.5)**	7.0
Proportion of share-based payments		**(1.3)**	1.6
Other non-deductible expenses		**0.6**	0.5
Tax liability upon underlying joint venture profits[1]		**2.6**	2.6
Residential property developer tax		**–**	0.3
Other		**(0.5)**	(0.5)
Tax expense for the year		**26.2**	24.4

1 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 assets/(liabilities)

	Asset amortisation and depreciation £m	Tax losses and short-term timing differences £m	Share-based payments £m	Total £m
1 January 2022	(22.1)	2.5	9.6	(10.0)
(Charge)/credit to income statement	3.6	7.0	(1.5)	9.1
Credit to equity	–	–	(5.9)	(5.9)
1 January 2023	**(18.5)**	**9.5**	**2.2**	**(6.8)**
Credit/(charge) to income statement	**(0.6)**	**(5.4)**	**1.4**	**(4.6)**
Charge to equity	**–**	**–**	**2.7**	**2.7**
31 December 2023	**(19.1)**	**4.1**	**6.3**	**(8.7)**

Certain deferred tax assets and liabilities, as shown above, have been offset as the Group has a legally enforceable right to do so.

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

Notes to the consolidated financial statements continued

7 Tax continued

On 1 April 2022, Residential Property Developer Tax (RPDT) was introduced at a rate of 4% (for a full year), on profits arising from residential property development. A £25m annual tax-free allowance applies in aggregate for the Group. A portion of the profits of the Group's Partnership Housing and Urban Regeneration businesses are subject to RPDT, and a liability of less than £0.1m (2022: £0.3m) has been accrued for the Group for 2023.

Pillar Two legislation has been enacted or substantively enacted in the UK. The legislation will be effective from 1 January 2024. The Group has performed an initial assessment of the Group's potential exposure to Pillar Two income taxes. Based on the initial assessment performed, the Group does not expect any material exposure to Pillar Two top-up taxes.

At 31 December 2023, the Group had unused tax losses of £18.1m (2022: £42.7m) available for offset against future profits. A deferred tax asset of £1.0m (2022: £6.3m) has been recognised in respect of £4.0m (2022: £26.9m) of these losses. No deferred tax asset has been recognised in respect of the remaining £14.1m of losses as these losses can only be utilised against profits from particular sources, and there are no probable future profits from these sources. The losses may be carried forward indefinitely.

8 Dividends

Amounts recognised as distributions to equity holders in the year:

	2023 £m	2022 £m
Final dividend for the year ended 31 December 2022 of 68p per share	**31.5**	
Final dividend for the year ended 31 December 2021 of 62p per share	**–**	28.3
Interim dividend for the year ended 31 December 2023 of 36p per share	**16.6**	
Interim dividend for the year ended 31 December 2022 of 33p per share	**–**	15.2
	48.1	43.5

The proposed final dividend for the year ended 31 December 2023 of 78p per share is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

9 Earnings per share

	Notes	2023 £m	2022 £m
Profit attributable to the owners of the Company		**117.7**	60.9
Adjustments:			
Exceptional building safety items	4	**(2.2)**	48.9
Amortisation of intangible assets		**2.9**	2.0
Tax relating to the above adjustments		**(3.7)**	(2.6)
Adjusted earnings		**114.7**	109.2

	2023 Number of shares (millions)	2022 Number of shares (millions)
Basic weighted average number of ordinary shares	**46.3**	45.9
Dilutive effect of share options and conditional shares not vested	**0.7**	0.8
Diluted weighted average number of ordinary shares	**47.0**	46.7
Basic earnings per share	**254.2p**	132.7p
Diluted earnings per share	**250.4p**	130.4p
Adjusted earnings per share	**247.7p**	237.9p
Diluted adjusted earnings per share	**244.0p**	233.8p

Notes to the consolidated financial statements continued

9 Earnings per share continued

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options and long-term incentive plan shares was based on quoted market prices for the year. The average share price for the year was £18.57 (2022: £19.12).

A total of 2,535,887 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 2023 (2022: 681,571).

10 Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
1 January 2022	217.7	42.1	259.8
Additions	–	1.3	1.3
Disposals	–	(2.0)	(2.0)
1 January 2023	**217.7**	**41.4**	**259.1**
Additions	–	0.3	0.3
31 December 2023	**217.7**	**41.7**	**259.4**
Accumulated amortisation			
1 January 2022	–	(37.9)	(37.9)
Disposals	–	(2.0)	(2.0)
Amortisation	–	2.0	2.0
1 January 2023	**–**	**(37.9)**	**(37.9)**
Amortisation	–	(2.9)	(2.9)
31 December 2023	**–**	**(40.8)**	**(40.8)**
Net book value at 31 December 2023	**217.7**	**0.9**	**218.6**
Net book value at 31 December 2022	217.7	3.5	221.2

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 £68.7m (2022: £nil), Infrastructure £82.4m (2022: £nil), Construction & Infrastructure £nil (2022: £151.1m), Partnership Housing £50.6m (2022: £50.6m) and Urban Regeneration £16.0m (2022: £16.0m). The prior-year operating segment and cash-generating unit Construction & Infrastructure was restructured during 2023 into two separate operating segments and cash-generating units, Construction and Infrastructure. The reallocation of goodwill between Construction and Infrastructure was based on a relative value approach using the net present value of future cash flows of the respective cash-generating units at the time of the restructure.

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 budgets for the next three years. Cash flows beyond three years have been extrapolated into perpetuity using an estimated nominal growth rate of 3.3% (2022: 1.2%). The nominal growth rate increased from the prior year due to the increase in inflation forecasts from the prior year. 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 12.5% (2022: 12.0%) for Construction, 12.5% (2022: 12.0%) for Infrastructure, 15.1% (2022: 13.0%) for Partnership Housing and 15.1% (2022: 13.0%) for Urban Regeneration.

10 Goodwill and other intangible assets continued

The increased discount rates in 2023 are due to higher gilt yields partially offset by reductions in the cost of equity, which were more significant in Construction and Infrastructure than Partnership Housing and Urban Regeneration.

In carrying out this exercise, no impairment of goodwill or other intangible assets has been identified. No reasonably foreseeable change in the assumptions used within the value-in-use calculations would cause an impairment in any of the segments.

Other intangible assets relate to internally generated software in Property Services £1.0m (2022: £3.5m). The cost and accumulated amortisation amounts for acquired intangible assets (excluding goodwill) that are fully written down at 31 December 2023 are £35.3m (2022: £35.3m) and (£35.3m) (2022: (£35.3m)) respectively.

Consideration of the impact of climate change

In terms of the possible impacts of climate change, the two key assumptions that could be sensitive to this are the growth rate and discount rates noted above. If climate change has a negative impact on revenues and/or the operating costs of the Group, there could be a potential impact on the discounted cash flow growth rates used within the valuation model. Lower future growth rates would reduce the level of the discounted cash flow valuation and hence the amount of headroom available to the Group above an impairment trigger. At present, the material short- to medium-term risks presented by possible climate change impacts are considered to be factored into the growth and discount rates where they are known and can be quantified.

Using the current assumptions, no reasonably foreseeable change in the assumptions used within the value-in-use calculations would cause an impairment in any of the segments. Therefore, at present, changes in the long-term assumptions due to the impact of climate change would also not be expected to trigger an impairment.

11 Property, plant and equipment

	Freehold property and land £m	Plant, equipment, fixtures and fittings £m	Right-of-use assets £m		Total £m
			Leasehold property £m	Plant and equipment £m	
Cost					
1 January 2022	2.4	49.1	55.4	27.5	134.4
Additions	–	10.5	7.4	14.8	32.7
Transfers	–	1.1	0.6	–	1.7
Disposals	–	(7.5)	(4.5)	(6.5)	(18.5)
1 January 2023	**2.4**	**53.2**	**58.9**	**35.8**	**150.3**
Additions	4.3	10.0	8.2	20.3	42.8
Foreign exchange adjustments	–	–	0.1	–	0.1
Disposals	–	(3.9)	(12.9)	(5.1)	(21.9)
31 December 2023	**6.7**	**59.3**	**54.3**	**51.0**	**171.3**
Accumulated depreciation					
1 January 2022	–	(35.3)	(21.7)	(10.8)	(67.8)
Depreciation charge	–	(7.1)	(8.0)	(7.8)	(22.9)
Foreign exchange adjustments	–	(0.7)	(0.2)	–	(0.9)
Disposals	–	7.4	2.6	6.1	16.1
1 January 2023	**–**	**(35.7)**	**(27.3)**	**(12.5)**	**(75.5)**
Depreciation charge	–	(7.9)	(8.2)	(10.7)	(26.8)
Foreign exchange adjustments	–	(0.1)	–	–	(0.1)
Disposals	–	2.0	10.5	4.6	17.1
31 December 2023	**–**	**(41.7)**	**(25.0)**	**(18.6)**	**(85.3)**
Net book value at 31 December 2023	**6.7**	**17.6**	**29.3**	**32.4**	**86.0**
Net book value at 31 December 2022	2.4	17.5	31.6	23.3	74.8

The Group holds some plant, property and equipment that is fully depreciated. The cost and accumulated depreciation amounts of this fully written down plant, property and equipment at 31 December 2023 are £14.8m (2022: £16.2m) and (£14.8m) (2022: (£16.2m)) respectively.

Notes to the consolidated financial statements continued

12 Investments in joint ventures

The Group has interests in the following joint ventures:

Anthem Lovell LLP 50% partner

Anthem Lovell LLP is a joint venture with Anthem Homes Limited (a subsidiary of Walsall Housing Group Limited) carrying out a strategic development project of a residential nature.

Brentwood Development Partnership LLP 50% partner

Brentwood Development Partnership LLP is a partnership with Seven Arches Investments Limited (a wholly owned subsidiary of Brentwood Borough Council) which is developing a series of sites in Brentwood over a 30-year period.

Chalkdene Developments LLP 50% partner

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.

Edmundham Developments LLP 50% partner

Edmundham Developments LLP is a joint venture with Suffolk County Council, which has been established to progress the development of residential homes across Suffolk, inclusive of associated infrastructure, local centres, employment land, education land and extra care provision.

English Cities Fund Limited Partnership 22.9% share

English Cities Fund is a limited partnership with Homes England and Legal & General to develop mixed-use regeneration schemes in assisted areas. Joint control is exercised through the board of the general partner at which each partner is represented by two directors and no decision can be taken without the agreement of a director representing each partner.

Health Innovation Partners Limited 50% share

Through the Health Innovation Partners joint venture with Arcadis BAC Limited, the Group has a 25% interest in The Oxleas Property Partnership LLP (TOPP), a joint venture with the Oxleas NHS Foundation Trust. In agreement with our partners, the partnership is in the process of being dissolved and the joint venture is expected to be wound up during 2024.

Hub West Scotland Limited 60% share

Hub West Scotland Limited is a joint venture with Scottish Futures Trust Investments Limited, East Dunbartonshire Council, East Renfrewshire Council, West Dunbartonshire Council, Glasgow City Council, NHS Greater Glasgow Health Board, the Board of Strathclyde Fire and Rescue, Strathclyde Joint Police Board and Clydebank Property Company Limited. The joint venture is delivering a pipeline of public sector health, education, and community projects in the Glasgow area. This joint venture was transferred out on 6 February 2024.

Kinsted Developments LLP 50% partner

Kinsted Developments LLP is a joint venture with Edes Estates Limited (a subsidiary of West Sussex County Council) established to carry out strategic developments of residential homes, town centre regeneration and extra care provision across West Sussex.

Laurus Lovell Whalley LLP 50% partner

Laurus Lovell Whalley LLP is a joint venture with THT Developments Limited (a subsidiary of Trafford Housing Limited) established to carry out a strategic development project of a residential nature in the north west of England.

Lingley Mere Business Park Development Company Limited 50% share

Lingley Mere Business Park Development Company Limited is a joint venture with United Utilities Property Services Limited (a wholly owned subsidiary of United Utilities PLC) delivering development at a site in Warrington.

Lovell Flagship LLP 50% partner

Lovell Flagship LLP is a joint venture with Flagship Housing Developments Limited (a subsidiary of Flagship Housing Group Limited) established to carry out strategic development and/or regeneration projects of a primarily residential nature.

Lovell Latimer LLP 50% partner

Lovell Latimer LLP is a joint venture with Latimer Developments Limited (a subsidiary of Clarion Housing Group) established to carry out a strategic development project of a residential nature in the north west of England.

12 Investments in joint ventures continued

Lovell Together LLP 50% partner

Lovell Together LLP is a joint venture with Together Commercial Limited (a subsidiary of Together Housing Group Limited) carrying out three strategic development projects of a residential nature in Eastern England.

Lovell/Abri Weymouth LLP 50% partner

Lovell/Abri Weymouth LLP is a joint venture with Radian Developments Limited (a subsidiary of Abri Group Limited) carrying out a strategic development project of a residential nature.

Lovell Together (Pendleton) LLP 50% partner

Lovell Together (Pendleton) LLP is a joint venture with Together Commercial Limited (a subsidiary of Together Housing Group Limited) established to carry out a strategic development project of a residential nature in the north west of England.

Morgan-Vinci Limited 50% share

Morgan-Vinci Limited is a joint venture with Vinci Newport DBFO Limited and is responsible for the construction and operation of the Newport Southern Distributor Road.

Slough Urban Renewal LLP 50% partner

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.

South Thamesmead LLP 50% partner

South Thamesmead LLP is a joint venture with Peabody Developments Limited (a subsidiary of Peabody Trust) established to carry out the next mixed-tenure phases of the regeneration of South Thamesmead in South East London.

St Andrews Brae Developments Limited 50% share

St Andrews Brae Developments Limited is a joint venture with Miller Homes which has completed a development of residential housing and apartments in Bearsden, Glasgow.

The Bournemouth Development Company LLP 50% partner

The Bournemouth Development Company LLP is a partnership with Bournemouth, Christchurch and Poole Council which is developing a series of sites in Bournemouth over a 20-year period.

The Compendium Group Limited 50% share

The Compendium Group Limited is a joint venture with The Riverside Group Limited and is a company formed to carry out strategic development and regeneration projects of a primarily residential nature.

The Prestwich Regeneration LLP 50% partner

The Prestwich Regeneration LLP is a joint venture with Bury Metropolitan Borough Council and was set up to undertake the redevelopment of the Longfield Shopping Centre in Prestwich, located in the Metropolitan Borough of Bury, Greater Manchester.

Waterside Places (General Partner) Limited 50% share

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.

Wirral Growth Company LLP 50% partner

Wirral Growth Company LLP is a joint venture with Wirral Borough Council and was set up to undertake regeneration of numerous sites in the Wirral region of North West England.

Notes to the consolidated financial statements continued

12 Investments in joint ventures continued

Investments in equity-accounted joint ventures are as follows:

	Notes	2023 £m	2022 £m
1 January		**84.0**	94.1
Equity-accounted share of net profits:			
Underlying share of net profits		**14.1**	14.3
Exceptional building safety credit/(charge)	4	**4.1**	(9.8)
		18.2	4.5
Capital advances to joint ventures		**44.2**	18.3
Capital repayments by joint ventures		**(34.2)**	(34.6)
Non-cash impairment		**–**	(0.9)
Dividends received		**(1.6)**	(1.4)
Reclassification to funding obligations payable	16	**(4.0)**	4.0
31 December		**106.6**	84.0

During 2023, an exceptional building safety credit of £4.1m (2022: charge of £9.8m) has been recognised in respect of the Group's share of constructive and legal obligations to remediate legacy building safety issues within joint ventures. In the prior year, these obligations created potential funding obligations within joint ventures of £4.0m where the obligations recognised were in excess of the carrying values of investments. These funding obligations have been presented in amounts owed to joint ventures in note 16. In the current year, following the exceptional building safety credit, no potential funding obligations exceeded the carrying values of investments and as a result there are no potential funding obligations at the reporting date.

Summarised financial information related to equity-accounted joint ventures that are not individually material is set out below.

	2023 £m	2022 £m
Non-current assets (100%)	**61.6**	231.9
Current assets (100%)	**550.5**	496.5
Current liabilities (100%)	**(149.2)**	(118.5)
Non-current liabilities (100%)	**(190.4)**	(368.5)
Net assets reported by equity-accounted joint ventures (100%)	**272.5**	241.4
Revenue (100%)	**299.8**	453.4
Expenses (100%)	**(267.8)**	(440.2)
Net profit (100%)	**32.0**	13.2

Results of equity-accounted joint ventures:

	2023 £m	2022 £m
Group share of profit before tax	**14.1**	14.4
Exceptional building safety charge	**4.1**	(9.8)
Group share of tax	**–**	(0.1)
Group share of profit after tax	**18.2**	4.5

Notes to the consolidated financial statements continued

13 Inventories

	2023 £m	2022 £m
Work in progress	**344.7**	333.9

Work in progress comprises land and housing, commercial and mixed-use developments in the course of construction.

14 Contract assets and liabilities

	2023 £m	2022 £m
Contract assets	**270.6**	294.6
Contract liabilities	**(95.8)**	(74.2)
Net contract assets	**174.8**	220.4

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 2023 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 that have not yet been fully satisfied and for which revenue has not been recognised. All contract liabilities held at 31 December 2023 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:

	2023		2022	
	Contract assets £m	Contract liabilities £m	Contract assets £m	Contract liabilities £m
1 January	**294.6**	**(74.2)**	232.6	(78.5)
Revenue recognised:				
Performance obligations satisfied in the current year	**4,043.5**	**74.2**	3,533.7	78.5
Cash received for performance obligations not yet satisfied	**–**	**(95.8)**	–	(74.2)
Amounts transferred to trade receivables	**(4,067.5)**	**–**	(3,471.7)	–
31 December	**270.6**	**(95.8)**	294.6	(74.2)

The following table sets out the Group's 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:

	2024 £m	2025 £m	2026+ £m	**Total £m**
Construction	652.1	144.3	–	**796.4**
Infrastructure	816.9	544.4	328.1	**1,689.4**
Fit Out	816.3	281.7	–	**1,098.0**
Property Services	180.1	176.2	1,121.3	**1,477.6**
Partnership Housing	806.0	547.4	680.7	**2,034.1**
Urban Regeneration	195.6	292.5	1,337.5	**1,825.6**
Eliminations	(0.9)	–	–	**(0.9)**
	3,466.1	1,986.5	3,467.6	**8,920.2**

Notes to the consolidated financial statements continued

15 Trade and other receivables

	Notes	2023 £m	2022 £m
Amounts falling due within one year			
Trade receivables	26	**320.9**	243.6
Amounts owed by joint ventures	25	**21.1**	9.2
Prepayments		**17.8**	13.0
Insurance receivables		**21.7**	4.8
Other receivables		**31.3**	36.0
		412.8	306.6
Amounts falling due after more than one year			
Trade receivables	26	**48.8**	46.4
		48.8	46.4
Trade and other receivables		**461.6**	353.0

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 £1.5m (2022: £2.5m); see note 26.

Retentions held by customers for contract work included within trade receivables at 31 December 2023 were £105.3m (2022: £96.8m). These will be collected in the normal operating cycle of the Company, including £48.8m (2022: £46.4m) that falls due in more than one year. The Company manages the collection of retentions through its post-completion project monitoring procedures and ongoing contact with clients to ensure that potential issues that could lead to the non-payment of retentions are identified and addressed promptly.

The Group holds third-party insurances that may mitigate the contract and legal liabilities described in note 20 'Contingent liabilities' and note 19 'Provisions'. Insurance receivables are recognised when reimbursement from insurers is virtually certain.

16 Trade and other payables

	Notes	2023 £m	2022 £m
Trade payables		**202.2**	165.4
Amounts owed to joint ventures	25	**0.2**	4.2
Other tax and social security		**142.8**	107.0
Accrued expenses		**703.9**	637.7
Deferred income		**3.8**	5.8
Land creditors		**20.7**	30.8
Other payables		**13.4**	12.3
Current		**1,087.0**	963.2
Land creditors		**25.5**	30.9
Other payables		**2.7**	6.4
Non-current		**28.2**	37.3

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 £4.3m (2022: £2.2m) to reflect the time value of money.

Retentions withheld from subcontractors included in trade payables amount to £88.8m (2022: £80.9m).

Funding obligations to joint ventures included within amounts owed to joint ventures are £nil (2022: £4.0m) as described in note 12.

17 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 £22.1m (2022: £22.9m) represents contributions payable to the defined contribution section of the Retirement Plan by the Group.

As at 31 December 2023, contributions of £3.7m (2022: £3.3m) 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 11 years.

On 23 May 2018 the Trustees of the Retirement Plan completed a buy-in transaction with Aviva to insure the benefits of the Defined Benefit members. The buy-in policy is an asset of the Plan that provides payments that are an exact match to the pension payments made to the Defined Benefit members covered by the policy.

During the year ended 31 December 2020 additional liabilities were recognised due to a court ruling on 20 November 2020 in respect of Guaranteed Minimum Pension (GMP) equalisation for past transfers out. The additional liability recognised as a result of this ruling at 31 December 2023 is £nil (2022: £0.2m).

On 31 October 2023 the Trustees of the Retirement Plan completed a buy-out transaction with Aviva for the remaining £0.2m of liabilities due to the Defined Benefit members. The buy-out was settled in cash.

The present value of the defined benefit liabilities was measured using the projected unit credit method. As a result of the buy-out in the year, only the prior-year comparative disclosures are included below.

The following table shows the key assumptions used in the prior year:

Key assumptions used:	2022
Discount rate (%)	4.8
Rate of inflation (%)	3.3
Rate of future pension increases[(a)] (%)	3.0–3.5
Average life expectancy for pensioner retiring now at age 65 years (years)	87.1
Average life expectancy for pensioner retiring in 20 years at age 65 years (years)	88.9

(a) Depending on their date of joining, members receive pension increases of 3.0% or 3.5%.

	2023			2022		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
1 January	6.6	(6.8)	(0.2)	10.1	(10.3)	(0.2)
Finance income/(expense)	–	–	–	0.2	(0.2)	–
Actuarial (loss)/gain	–	–	–	(3.0)	3.0	–
Buy-out	(6.6)	6.8	0.2	–	–	–
Benefits paid	–	–	–	(0.7)	0.7	–
31 December	–	–	–	6.6	(6.8)	(0.2)

Notes to the consolidated financial statements continued

17 Retirement benefit schemes continued

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 at 31 December 2022. Following the completion of the buy-out in October 2023, the total plan assets and liabilities at 31 December 2023 are nil.

No contributions are expected to be paid to the defined benefit section of the Retirement Plan during 2024.

18 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 2023 is set out below:

	2023			2022		
	Property £m	Plant and equipment £m	Total £m	Property £m	Plant and equipment £m	Total £m
Within one year	5.6	13.5	19.1	8.6	9.2	17.8
Within two to five years	23.9	22.8	46.7	22.7	15.2	37.9
After more than five years	6.0	–	6.0	7.2	–	7.2
Total undiscounted cash flows	35.5	36.3	71.8	38.5	24.4	62.9
Deduct impact of discounting	(4.1)	(3.9)	(8.0)	(4.5)	(1.5)	(6.0)
31 December	31.4	32.4	63.8	34.0	22.9	56.9

	2023			2022		
	Property £m	Plant and equipment £m	Total £m	Property £m	Plant and equipment £m	Total £m
1 January	34.0	22.9	56.9	36.6	16.2	52.8
Additions	8.2	20.3	28.5	7.0	15.0	22.0
Terminations	(2.4)	(0.5)	(2.9)	(2.1)	(0.5)	(2.6)
Repayments	(9.6)	(11.6)	(21.2)	(8.8)	(8.4)	(17.2)
Interest expense (note 6)	1.2	1.3	2.5	1.3	0.6	1.9
31 December	31.4	32.4	63.8	34.0	22.9	56.9

19 Provisions

	Building safety £m	Self-insurance £m	Contract and legal £m	Other £m	Total £m
1 January 2022	–	21.2	33.4	2.7	57.3
Utilised	(0.8)	(1.0)	(6.5)	(0.2)	(8.5)
Additions	39.1	4.0	13.2	1.3	57.6
Released	–	(4.4)	(24.4)	(0.7)	(29.5)
1 January 2023	**38.3**	**19.8**	**15.7**	**3.1**	**76.9**
Reclassifications	0.3	–	3.7	–	4.0
Utilised	(0.9)	(1.3)	(5.2)	(0.3)	(7.7)
Additions	26.3	3.9	10.6	0.8	41.6
Released	(7.9)	(3.2)	(6.5)	(1.1)	(18.7)
31 December 2023	**56.1**	**19.2**	**18.3**	**2.5**	**96.1**
Current	56.1	1.2	18.3	1.1	76.7
Non-current	–	18.0	–	1.4	19.4
31 December 2023	**56.1**	**19.2**	**18.3**	**2.5**	**96.1**

Building safety provisions

Management has reviewed legal and constructive obligations arising from the developers' pledge, the Building Safety Act and other associated fire regulations. Where obligations exist, these have been evaluated for the likely cost to address, including repayments of the Building Safety Fund. As a result of this review process, provisions are recognised, as reported in the table above, excluding those recognised in joint ventures. The provision is expected to be utilised in the next three years, with repayments to the Building Safety Fund commencing no earlier than the middle of 2024.

See note 4 for further detail.

The Group also holds third-party insurances that may mitigate the liabilities. Third-party insurance reimbursement in respect of these provisions has been recognised as a separate asset, but only when the reimbursement is virtually certain. See notes 4 and 15 for details of mitigating insurance receivables recognised at the period end.

Note 20 includes details of contingent liabilities related to building safety.

Self-insurance provisions

Self-insurance provisions comprise the Group's self-insurance of certain risks and include £10.0m (2022: £11.1m) held in the Group's captive insurance company, Newman Insurance Company Limited ('the Captive').

The Group makes provisions in respect of specific types of claims incurred but not reported (IBNR). The valuation of IBNR considers past claims experience and the risk profile of the Group. These are reviewed periodically and are intended to provide a best estimate of the most likely or expected outcome.

Contract and legal provisions

Contract and legal provisions include liabilities, loss provisions, defect and warranty provisions on contracts that have reached completion.

The Group also holds third-party insurances that may mitigate the liabilities. Third-party insurance reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. See note 15 for details of mitigating insurance receivables recognised at the period end.

Note 20 includes details of contingent liabilities related to claims.

Other provisions

Other provisions include property dilapidations and other personnel-related provisions.

Notes to the consolidated financial statements continued

20 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 2023, contract bonds in issue under uncommitted facilities covered £174.7m of contract commitments of the Group, of which £22.3m related to joint arrangements and £nil related to joint ventures (2022: £148.3m, of which £25.7m related to joint arrangements and £0.1m related to joint ventures).

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

Building safety

At 31 December 2023, provisions in respect of liabilities arising from the developers' pledge, the Building Safety Act and other associated fire regulations totalled £61.6m (2022: £48.1m), including those related to joint ventures.

The ongoing legislative and regulatory changes in respect of legacy building safety issues create uncertainty around the extent of remediation required for legacy buildings, the liability for such remediation, recoveries from other parties and the time to be considered. It is possible that as remediation work proceeds, additional remedial works are required that may not have been identified from the reviews and physical inspections undertaken to date. The scope of buildings and remediation works to be considered may also change as legislation and regulations continue to evolve.

Uncertainties also exist in respect of the timing and extent of expected recoveries from other third parties involved in developments.

21 Share capital

	2023		2022	
	Number	£m	Number	£m
Issued and fully paid ordinary shares of 5p each:				
1 January	47,350,604	2.4	46,374,873	2.3
Exercise of share options	7,122	–	975,731	0.1
31 December	**47,357,726**	**2.4**	47,350,604	2.4

All issued ordinary shares are fully paid. Ordinary shares are entitled to dividends when declared and each share carries the right to one vote at a meeting of the Company.

During 2023, 7,122 shares were issued in respect of options exercised under the Group's Savings-Related Share Option Plan for a total consideration of £0.1m (2022: 975,731 shares were issued for a total consideration of £10.2m).

22 Other reserves

	Capital redemption reserve £m	Translation reserve £m	Hedging reserve £m	Total other reserves £m
1 January 2022	0.6	(0.8)	(0.8)	(1.0)
Exchange rate variances	–	2.1	–	2.1
Fair value gains/(losses)	–	–	–	–
1 January 2023	**0.6**	**1.3**	**(0.8)**	**1.1**
Exchange rate variances	–	**0.2**	–	**0.2**
Fair value gains/(losses)	–	–	–	–
31 December 2023	**0.6**	**1.5**	**(0.8)**	**1.3**

The capital redemption reserve was created on the redemption of preference shares in 2003.

Notes to the consolidated financial statements continued

22 Other reserves continued

The hedging reserve arises from cash flow hedge accounting. Movements on the effective portion of hedges are recognised through the hedging reserve, while any ineffectiveness is taken to the income statement.

The translation reserve comprises the aggregate effect of translating overseas operations into the Group's functional currency.

23 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 2023 was 1,124,215 (2022: 1,135,131) with a cost of £23.4m (2022: £26.1m). 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 2023 of £22.15 (2022: £15.30), the market value of the shares was £24.9m (2022: £17.4m).

24 Share-based payments

The Group recognised a share-based payment expense of £6.6m (2022: £9.7m) related to equity-settled share-based payment transactions. The Group has four share option schemes with unvested options or awards at 31 December 2023:

- 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 (options granted since 2022 have no performance condition other than continued service). If the options remain unexercised after a period of 10 years from the date of grant, the options lapse. If employees are not deemed to be good leavers under the rules of the 2014 SOP, their options will be forfeited if they leave the Group before the end of the option maturity period.
- Savings-Related Share Option Plan (SAYE) for all employees that are employed by the Group at the relevant invitation date. There are no performance criteria for the SAYE and options are issued to participants in accordance with HMRC rules.
- Long-Term Incentive Plan (2014 LTIP). Details of the performance conditions and other information in respect of the 2014 LTIP are set out in the directors' remuneration report on pages 161 and 162.
- Deferred bonus plan nil-cost options ('deferred bonus plan'). Information in respect of the deferred bonus plan is set out in the directors' remuneration report on pages 141 and 144.

The Group also has options that are outstanding at 31 December 2023 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		
		SAYE	Awards with TSR condition	Awards with EPS condition	Share options under 2014 SOP
Number of awards or options granted		1,001,865	81,764	163,529	990,239
Weighted average fair value at date of grant (per share)		£5.41	£10.44	£15.94	£3.15
Weighted average share price at date of grant		£18.96	£17.94	£17.94	£16.85
Weighted average exercise price		£14.26	n/a	n/a	£16.84
Valuation model		Black–Scholes	Monte Carlo	Black–Scholes	Black–Scholes
Expected term (from date of grant)		3.0 years	3.0 years	3.0 years	6.5 years
Expected volatility	(a)	36.70%	37.20%	34.5%	36.80%
Expected dividend yield	(b)	6.04%	n/a	n/a	6.79%
Risk-free rate		4.32%	3.81%	3.89%	3.27%

(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.

Notes to the consolidated financial statements continued

24 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:

	2023		2022	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at 1 January	3,669,906	16.81	4,598,162	14.19
Granted during the year	2,013,335	15.38	728,166	22.35
Lapsed during the year	(263,308)	17.08	(216,270)	16.41
Exercised during the year	(344,299)	14.22	(1,440,152)	10.81
Outstanding at 31 December	5,075,634	16.40	3,669,906	16.81
Exercisable at 31 December	1,072,170	15.02	732,706	11.79
Weighted average remaining contractual life	5.65 years		6.4 years	

The weighted average share price at the date of exercise for share options exercised during the year was £19.00 (2022: £20.36).

The options outstanding at 31 December 2023 had exercise prices ranging from £nil to £20.57 (2022: £nil to £22.94).

25 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 £186.4m (2022: £105.0m). At 31 December 2023, amounts owed to the Group by joint ventures was £21.1m (2022: £9.2m) and amounts owed by the Group to joint ventures was £0.2m (2022: £4.2m) including joint venture funding obligations as described in note 12.

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'.

	2023 £m	2022 £m
Short-term employee benefits	9.5	9.8
Post-employment benefits	0.1	0.1
Termination benefits	0.3	–
Share-based payments	1.9	4.4
	11.8	14.3

Details of directors' remuneration are set out in the directors' remuneration report on pages 153 to 156.

Directors' transactions

There have been no related party transactions with any director in the year or in the subsequent period to 21 February 2024.

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 21 February 2024.

26 Financial instruments

Net cash

Net cash is defined as cash and cash equivalents less borrowings and non-recourse project financing as shown below:

	2023 £m	2022 £m
Cash and cash equivalents	**541.3**	431.7
Bank overdrafts presented as borrowings due within one year	**(80.6)**	(77.1)
Cash and cash equivalents reported in the consolidated cash flow statement	**460.7**	354.6
Net cash	**460.7**	354.6

Included within cash and cash equivalents is £26.1m (2022: £38.0m) which is the Group's share of cash held within jointly controlled operations. There is £13.9m included within cash and cash equivalents that is held for future payment to designated suppliers (2022: £11.1m). There is a third-party charge of £0.5m (2022: £0.5m) on a bank account in Switzerland for the purpose of rental guarantees for offices occupied by BakerHicks.

The Group has £180m of committed loan facilities maturing more than one year from the balance sheet date, of which £15m matures in June 2026 and £165m in October 2026. These facilities are undrawn at 31 December 2023.

Average daily net cash during 2023 was £281.7m (2022: £256.3m). 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 uses 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 2023 were £105.3m (2022: £96.8m). These will be collected in the normal operating cycle of the Group; see note 15.

The Group manages its exposure to credit risk through the application of its credit risk management policies which specify the minimum requirements in respect of the creditworthiness of potential customers, assessed through reports from credit agencies, and the timing and extent of progress payments in respect of contracts.

The risk management policies of the Group also specify procedures in respect of obtaining Parent Company guarantees or, in certain circumstances, use of escrow accounts which, in the event of default, mean that the Group may have a secure claim. The Group does not require collateral in respect of contract assets or trade receivables.

The Group manages the collection of retentions through its post-completion project monitoring procedures and ongoing contact 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 and the forecast direction of conditions at the reporting date.

Notes to the consolidated financial statements continued

26 Financial instruments continued

The ageing of trade receivables at the reporting date was as follows:

	2023		2022	
	Gross trade receivables £m	Provision for expected credit losses £m	Gross trade receivables £m	Provision for expected credit losses £m
Not past due	313.3	0.2	244.7	0.5
Past due 1 to 30 days	27.7	–	22.9	–
Past due 31 to 120 days	12.1	–	10.4	–
Past due 121 to 365 days	9.5	–	6.1	–
Past due greater than one year	8.6	1.3	8.4	2.0
	371.2	1.5	292.5	2.5

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:

	2023 £m	2022 £m
1 January	2.5	1.2
Net movement in loss allowance arising from new amounts recognised in current year, net of those derecognised upon billing	(1.0)	1.3
31 December	1.5	2.5

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 33 days (2022: 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 £59.2m (2022: £45.8m) 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 107 days (2022: 108 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.

The Group regularly reviews its loans to joint ventures against expected future cash flows and net assets of the joint ventures to determine if they are still expected to be fully recoverable. This assessment includes consideration of the joint ventures' credit risk.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The ultimate responsibility for liquidity risk rests with the Board.

The Group aims to manage liquidity by ensuring that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions.

Liquidity is provided through cash balances and committed bank loan facilities. Additional project finance borrowings 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.

26 Financial instruments continued

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 £11.1m (2022: £11.6m) and fixed interest payments at an average rate of 5.1% (2022: 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 46 and 47.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. The cash and cash equivalents are supplemented by £180m of committed bank facilities, of which £15m expires in June 2026 and £165m expires in October 2026. 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.

27 Subsequent events

There were no subsequent events that affected the financial statements of the Group.

28 Adjusted performance measures

In addition to monitoring and reviewing the financial performance of the operating segments and the Group on a statutory basis, management also uses 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:

'Adjusted' In all cases the term 'adjusted' excludes the impact of intangible amortisation and exceptional items. 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.

On the following page is a reconciliation between the reported gross profit, operating profit and profit before tax measures on a statutory basis and the adjustment made to calculate adjusted gross profit, adjusted operating profit and adjusted profit before tax.

Notes to the consolidated financial statements continued

28 Adjusted performance measures continued

Adjusted basic earnings per share and adjusted diluted earnings per share is the statutory measure excluding the post-tax impact of intangible amortisation and exceptional items, and the deferred tax charge arising due to changes in UK corporation tax rates. See note 9 for a detailed reconciliation of the adjusted EPS measures.

		Gross profit		Operating profit		Profit before tax	
	Notes	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Reported		444.8	370.9	140.6	88.3	143.9	85.3
Adjust for: exceptional building safety items[1]		1.9	39.1	(2.2)	48.9	(2.2)	48.9
Adjust for: amortisation of intangible assets		–	–	2.9	2.0	2.9	2.0
Adjusted		446.7	410.0	141.3	139.2	144.6	136.2
Reported tax charge						(26.2)	(24.4)
Adjust for: tax relating to amortisation						(0.7)	(0.4)
Adjust for: tax relating to exceptional items						(3.0)	(2.2)
Adjusted profit after tax/earnings	9					114.7	109.2

1 The exceptional building safety items include amounts recognised in cost of sales (£1.9m (2022: £39.1m)) and share of net profit of joint ventures (£4.1m credit (2022: £9.8m charge)). See note 4.

'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 26. In addition, management monitors and reviews 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 uses 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. Operating cash flow can be derived from the cash inflow from operations reported in the consolidated cash flow statement as shown below.

Operating cash flow conversion is operating cash flow divided by adjusted operating profit as defined above.

	Notes	2023 £m	2022 £m
Cash inflow from operations – reported		221.2	75.0
Dividends from joint ventures	12	1.6	1.4
Proceeds on disposal of property, plant and equipment		2.0	0.6
Purchases of property, plant and equipment	11	(14.3)	(10.5)
Purchases of intangible fixed assets	10	(0.3)	(1.3)
Repayments of lease liabilities	18	(21.2)	(17.2)
Operating cash flow		189.0	48.0

'Return on capital employed' Management uses 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 adjusted average capital employed. Adjusted average capital employed is the 12-month average of total assets (excluding goodwill, other intangible assets and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing, overdrafts and exceptional building safety items).

Company statement of financial position

at 31 December 2023

	Notes	2023 £m	2022 £m
Assets			
Property, plant and equipment		2.6	4.0
Net investment in sublease		4.3	–
Investments	2	429.1	459.6
Deferred tax asset		7.1	9.7
Prepayments		1.3	–
Amounts owed by subsidiary undertakings		15.4	15.4
Non-current assets		459.8	488.7
Trade receivables		1.3	0.7
Amounts owed by subsidiary undertakings		248.3	144.5
Prepayments		6.8	5.1
Other receivables		5.7	5.0
Cash and cash equivalents		263.0	158.1
Current assets		525.1	313.4
Total assets		984.9	802.1
Liabilities			
Bank overdrafts		(55.1)	(56.8)
Lease liabilities		(1.1)	(0.4)
Trade payables		(1.3)	(1.6)
Amounts owed to subsidiary undertakings		(702.4)	(536.5)
Current tax liabilities		(9.4)	(2.6)
Other tax and social security		(0.8)	(0.8)
Retirement benefit obligation		–	(0.2)
Accrued expenses		(11.3)	(9.9)
Other payables		(2.2)	(1.5)
Provisions	3	(2.9)	(2.5)
Current liabilities		(786.5)	(612.8)
Net current liabilities		(261.4)	(299.4)
Total assets less current liabilities		198.4	189.3
Lease liabilities		(4.2)	(1.1)
Provisions	3	(8.3)	(9.0)
Non-current liabilities		(12.5)	(10.1)
Net assets		185.9	179.2
Equity			
Share capital		2.4	2.4
Share premium account		56.0	55.9
Capital redemption reserve		0.6	0.6
Special reserve		13.7	13.7
Retained earnings		113.2	106.6
Total equity		185.9	179.2

The Company reported a profit for the financial year ended 31 December 2023 of £52.7m (2022: profit of £79.9m).

The financial statements of the Company (company number: 00521970) were approved by the Board and authorised for issue on 21 February 2024 and signed on its behalf by:

John Morgan
Chief Executive

Steve Crummett
Finance Director

Company statement of changes in equity

at 31 December 2023

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Special reserve £m	Profit and loss account £m	Shareholders' funds £m
1 January 2022	2.3	45.8	0.6	13.7	77.9	140.3
Profit for the year	–	–	–	–	79.9	79.9
Other comprehensive income	–	–	–	–		–
Total comprehensive income	–	–	–	–	79.9	79.9
Share-based payments	–	–	–	–	9.7	9.7
Tax relating to share-based payments	–	–	–	–	(3.3)	(3.3)
Issue of shares at a premium	0.1	10.1	–	–	–	10.2
Purchase of shares in the Company by the Trust	–	–	–	–	(15.7)	(15.7)
Exercise of share options	–	–	–	–	1.6	1.6
Dividends paid	–	–	–	–	(43.5)	(43.5)
1 January 2023	**2.4**	**55.9**	**0.6**	**13.7**	**106.6**	**179.2**
Profit for the year	–	–	–	–	52.7	52.7
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	52.7	52.7
Share-based payments	–	–	–	–	6.6	6.6
Tax relating to share-based payments	–	–	–	–	2.7	2.7
Issue of shares at a premium	–	0.1	–	–	–	0.1
Purchase of shares in the Company by the Trust	–	–	–	–	(11.3)	(11.3)
Exercise of share options	–	–	–	–	4.0	4.0
Dividends paid	–	–	–	–	(48.1)	(48.1)
31 December 2023	**2.4**	**56.0**	**0.6**	**13.7**	**113.2**	**185.9**

Accounting policy information

for the year ended 31 December 2023

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.

Accounting policy information

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 17), share capital (note 21) and dividends (note 8) have not been repeated here as there are no differences to those provided in the consolidated accounts. The accounting policies specific to the Company are set out below:

Investments in subsidiaries

Investments in subsidiaries are recognised and held at cost and subsequently tested for impairment on an annual basis. Where an impairment is identified, a provision for impairment is recorded against the carrying value of the investment. Dividend income is recognised when received.

Company as an intermediate lessor

When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

In the current year, two property leases where the Company is an intermediate lessor were classified as a finance lease. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases.

Critical accounting judgements or estimates

The directors do not consider there to be any critical accounting judgements or estimates in the Company's financial statements.

Other compliance statements

These separate financial statements have been prepared on the going concern basis as set out in the basis of preparation to the consolidated financial statements on page 185.

The separate financial statements have been prepared under the historical cost convention.

The separate 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 Companies Act 2006 and consequently the statement of comprehensive income (including the profit and loss account) of the Parent Company is not presented as part of these accounts.

Notes to the Company financial statements

1 Staff costs

	2023 £m	2022 £m
Wages and salaries	**12.7**	12.3
Social security costs	**2.5**	1.0
Other pension costs	**0.4**	0.3
Share-based payments	**3.7**	5.7
	19.3	19.3
The average number of employees	**107**	106

Social security costs include an expense of £1.0m related to the Group share option scheme (2022: benefit of £1.0m).

2 Investments

	Subsidiary undertakings 2023 £m	Subsidiary undertakings 2022 £m
Cost		
1 January	**459.6**	459.6
Disposals	**(1.8)**	–
31 December	**457.8**	459.6
Accumulated impairment		
1 January	**–**	–
Impairment	**(28.7)**	–
31 December	**(28.7)**	–
Net book value at 31 December	**429.1**	459.6

The Company tests investments for impairment where there are indications that investments might be impaired. In testing investments for impairment, the recoverable amount of each investment 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 budgets for the next three years. Cash flows beyond three years have been extrapolated into perpetuity using an estimated nominal growth rate of 3.3% (2022: 1.2%). The nominal growth rate increased from the prior year due to the increase in inflation forecasts from prior year. 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 investments. The risk-adjusted nominal rates for Construction, Infrastructure, Fit Out and Property Services are 12.5% (2022: 12.0%). The risk-adjusted nominal rates for Partnership Housing and Urban Regeneration are 15.1% (2022: 13.0%). The increased discount rates in 2023 are due to higher gilt yields partially offset by reductions in the cost of equity, which were more significant in Construction divisions than Regeneration divisions.

In the current year a £28.7m (2022: £nil) impairment has been recognised in respect of the Company's £28.7m investment in Morgan Sindall Property Services Limited. The impairment resulted from difficult contract performance driving reduced cash flows and profitability. No reasonably foreseeable change in the assumptions used within the value-in-use calculations would cause an impairment in any of the other investments.

Notes to the Company financial statements continued

2 Investments continued

A list of all subsidiary, associated undertakings and significant holdings owned by the Group at 31 December 2023 (unless otherwise noted) is shown below:

Construction and 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
Baker Hicks Europe Holdings Limited	Indirect	100
BakerHicks AG*[(e)]	Indirect	100
BakerHicks ApS*[(p)]	Indirect	100
BakerHicks GmbH*[(f)]	Indirect	100
BakerHicks GmbH*[(g)]	Indirect	100
BakerHicks SA*[(q)]	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

Notes to the Company financial statements continued

2 Investments continued

Partnership Housing

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Lovell Partnerships Limited	Direct	100
345 Park Place Residents Management Company Limited[a][2]	Indirect	100
Abbey Walk Management Company Limited[a][2]	Indirect	100
AH Burnholme Limited	Indirect	100
All Saints Green Residents Management Company Limited[r][2]	Indirect	100
Anthem Lovell LLP[1]	Indirect	50
Bincombe Park Residents Management Company Limited[a][2]	Indirect	100
Blossomfield (Thorp Arch) Management Company Limited[a][2]	Indirect	100
Briarswood Residents Management Company Limited[a][2][10]	Indirect	100
Caldon Quay Residents Management Company Limited[a][2]	Indirect	100
Chalkdene Developments LLP[1]	Indirect	50
Cherry Pie Meadow Residents Management Company Limited[a][2]	Indirect	100
Claymore Roads (Holdings) Limited[c]	Indirect	50
Community Solutions for Education Limited	Indirect	100
Community Solutions for Regeneration Limited	Indirect	100
Community Solutions for Regeneration (Hertfordshire) Limited	Indirect	100
Community Solutions (Hub West Scotland) Limited (formerly Wellspring Partnership Limited)[b]	Indirect	100
Community Solutions Living Limited	Indirect	100
Community Solutions Management Services Limited	Indirect	100
Community Solutions Management Services (Hub) Limited	Indirect	100
Community Solutions Partnership Services Limited	Indirect	100
Cornish Park Residents Management Company Limited[a][2]	Indirect	100
Crosse Courts (Basildon) Management Company Limited[a][2]	Indirect	100
Crown Meadows Residents Management Company Limited[a][2]	Indirect	100
Drummond Park (Ludgershall) Residents Management Company Limited[a][2]	Indirect	100
Eden Park (Bonscale Crescent) Residents Management Company Limited[a][2]	Indirect	100
Eden Valley Management Company Limited[a][2]	Indirect	100
Edmundham Developments LLP[1]	Indirect	50
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
Foxglove Meadows Residents Management Company Limited[a][2]	Indirect	100
Gallus Fields Residents Management Company Limited[a][2]	Indirect	100
Garrett Grove Residents Management Company Limited[a][2][10]	Indirect	100
Golwg Y Bryn Residents Management Company Limited[a][2]	Indirect	100
Hamsard 3134 Limited	Indirect	100
Hamsard 3135 Limited	Indirect	100
Health Innovation Partners Limited	Indirect	50
Heath Farm Residents Management Company Limited[a][2]	Indirect	100
hub West Scotland Limited[d][9]	Indirect	60

Notes to the Company financial statements continued

2 Investments continued

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
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
Kings Reach (Snaith) Residents Management Company[(a)(2)]	Indirect	100
Kinsted Developments LLP (formerly West Sussex Property Development LLP)[(1)]	Indirect	50
Laurus Lovell Whalley LLP[(1)]	Indirect	50
Laxton Close Management Company Limited[(a)(2)]	Indirect	100
Lockside Residents Management Company Limited[(a)(2)]	Indirect	100
Lovell Bow Limited	Indirect	100
Lovell Director Limited	Indirect	100
Lovell Flagship LLP[(1)]	Indirect	50
Lovell Guf Limited	Indirect	100
Lovell Later Living LLP[(1)]	Indirect	100
Lovell Latimer LLP[(1)]	Indirect	50
Lovell Plus Limited	Indirect	100
Lovell Property Rental Limited	Indirect	100
Lovell Together (Pendleton) LLP[(1)]	Indirect	50
Lovell Together LLP[(1)]	Indirect	50
Lovell/Abri Weymouth LLP[(1)]	Indirect	50
Lymington Mews Management Company Limited[(a)(2)]	Indirect	100
Meggeson Management Company Limited[(a)(2)]	Indirect	100
Minshull Way Residents Management Company Limited[(a)(2)]	Indirect	100
Morgan Sindall Consortium LLP[(1)]	Indirect	100
Morgan Sindall Investments (Newport SDR) Limited	Indirect	100
Morgan-Vinci Limited	Indirect	50
Morris Walk North Management Company Limited[(a)(2)]	Indirect	100
Morris Walk South Residents Management Company Limited[(a)(2)]	Indirect	100
Mount View (Melton Mowbray) Residents Company Limited[(a)(2)]	Indirect	100
Oaktree Grange Residents Management Company Limited[(a)(2)]	Indirect	100
Park View (Holt) Residents Management Company Limited[(a)(2)(10)]	Indirect	100
Pich Management Company Limited[(a)(2)]	Indirect	100
Pool House Wombourne Ltd	Indirect	100
Principal Point Residents Management Company Limited[(a)(2)]	Indirect	100
Queensbury Park Management Company Limited[(a)(2)]	Indirect	100
RMC The Meadows, Clifton-upon-Teme Limited[(a)(2)]	Indirect	100
Romsey Extra Care Limited	Indirect	100
Ruby Brook Estate Management Company Limited[(a)(2)]	Indirect	100
Ruby Brook Management Company Limited[(a)(2)]	Indirect	100
Saddlers Grange (Howden) Management Company Limited[(a)(2)]	Indirect	100
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

Notes to the Company financial statements continued

2 Investments continued

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Somerford Park Residents Management Company Limited[a][2]	Indirect	100
South Thamesmead LLP[u][1]	Indirect	50
St Mary's View (Residents) Management Company Limited[a][2]	Indirect	100
Station House (Stourbridge) Management Company Limited[a][2]	Indirect	100
Stoke Development Limited	Indirect	100
Tennyson Fields (Phase 2) Residents Management Company Limited[a][2]	Indirect	100
Tennyson Fields Management Company Limited[a][2]	Indirect	100
The Acorns (Walsham Le Willows) Residents Management Company Limited[a][2]	Indirect	100
The Compendium Group Limited	Indirect	50
The East Avenue 2 Residents Management Company Limited[a][2][8]	Indirect	100
The East Avenue Residents Management Company Limited[a][2]	Indirect	100
The Junction Apartments Residents Management Company Limited[a][2]	Indirect	100
The Junction Residents Management Company Limited[a][2]	Indirect	100
The Laureates Residents Management Company Limited[a][2]	Indirect	100
The Mill (Site 1) Residents Management Company Limited[a][2]	Indirect	100
The Mill (Site 2) Residents Management Company Limited[a][2]	Indirect	100
The Spires Residents Management Company Limited[a][2]	Indirect	100
The Sycamores (Kirk Ella) Management Company Limited[a][2]	Indirect	100
The Way Beswick (Zone 1) Management Limited[a][2]	Indirect	100
The Way Beswick (Zone 2) Management Limited[a][2]	Indirect	100
The Way Beswick (Zone 3) Management Limited[a][2]	Indirect	100
The Way Beswick (Zone 4) Management Limited[a][2]	Indirect	100
The Way Beswick (Zone 5) Management Limited[a][2]	Indirect	100
The Way Beswick (Zone 6) Management Limited[a][2]	Indirect	100
The Way Beswick (Zone 7) Management Limited[a][2]	Indirect	100
Tixall View Residents Management Company Limited[a][2]	Indirect	100
Towcester Regeneration Limited	Indirect	100
Trinity Walk Residents Management Company Limited[a][2]	Indirect	100
Victoria Court (Newport No 1) Residents Management Company Limited[o][2]	Indirect	50
Victoria Court (Newport No 2) Residents Management Company Limited[a][2]	Indirect	100
Waterside Quay Residents Management Company Limited[a][2]	Indirect	100
Wellspring SubDebt Limited	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
Weymouth Community Sports LLP[1]	Indirect	100
Wild Walk Donnington Wood 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

Notes to the Company financial statements continued

2 Investments continued

Urban Regeneration

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Muse Places Limited	Direct	100
Alexandria Business Park Management Company Limited[(h)(5)]	Indirect	100
Ashton Moss Developments Limited	Indirect	50
Brentwood Development Partnership LLP[(1)]	Indirect	50
Bromley Park (Holdings) Limited	Indirect	50
Chatham Place (Building 1) Limited	Indirect	100
Chatham Place Building 1 (Commercial) Limited	Indirect	100
Chatham Square Limited	Indirect	100
Cheadle Royal Management Company Limited[(h)(3)]	Indirect	27.9
Community Solutions for Regeneration (Bournemouth) Limited	Indirect	100
Community Solutions for Regeneration (Brentwood) Limited	Indirect	100
Community Solutions for Regeneration (Slough) Limited	Indirect	100
ECF (General Partner) Limited[(i)]	Indirect	33.3
English Cities Fund[(i)(4)]	Indirect	22.9
Eurocentral Partnership Limited	Indirect	99
EPL Contractor (Plot B West) Limited	Indirect	99
EPL Contractor (Plot F East) Limited	Indirect	99
EPL Contractor (Plot F West) Limited	Indirect	99
EPL Developer (Plot B West) Limited	Indirect	99
EPL Developer (Plot F East) Limited	Indirect	99
EPL Developer (Plot F West) Limited	Indirect	99
Harrier Park Management Company Limited[(2)]	Indirect	100
ICIAN Developments Limited	Indirect	100
Intercity Developments Limited	Indirect	50
Ivor House (Brixton) Management Company Limited[(w)(2)(8)]	Indirect	100
Lewisham Gateway Developments (Holdings) Limited	Indirect	100
Lewisham Gateway Developments Limited	Indirect	100
Lingley Mere Business Park Development Company Limited[(j)]	Indirect	50
Logic Leeds Management Company Limited[(s)(2)]	Indirect	50
Muse Aberdeen Limited	Indirect	100
Muse (Brixton) Limited	Indirect	100
Muse (ECF) Partner Limited	Indirect	100
Muse (Warp 4) Partner Limited	Indirect	100
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[(n)(2)]	Indirect	100
Rail Link Europe Limited	Indirect	100
Slough Urban Renewal LLP[(1)]	Indirect	50
Sovereign Leeds Limited	Indirect	100

Notes to the Company financial statements continued

2 Investments continued

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
St Andrews Brae Developments Limited	Indirect	50
The Bournemouth Development Company LLP[1]	Indirect	50
The Prestwich Regeneration LLP[1]	Indirect	50
Wapping Wharf (Alpha) LLP[1]	Indirect	50
Wapping Wharf (Beta) LLP[1]	Indirect	40
Warp 4 General Partner Limited	Indirect	100
Warp 4 General Partner Nominees Limited	Indirect	100
Warp 4 Limited Partnership[4]	Indirect	100
Waterside Places (General Partner) Limited[k]	Indirect	50
Waterside Places Limited Partnership[k][4]	Indirect	50
Wirral Growth Company LLP[m][1]	Indirect	50

Morgan Sindall Group

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Barnes & Elliott Limited	Direct	100
Bluebell Printing Limited	Direct	100
Hinkins & Frewin Limited	Direct	100
Lovell Partnerships (Northern) Limited	Direct	100
Lovell Partnerships (Southern) Limited	Direct	100
Morgan Est (Scotland) Limited[b]	Direct	100
Morgan Beton And Monierbau Limited[v][7]	Indirect	50
Morgan Lovell London Limited	Direct	100
Morgan Sindall Investments Limited	Direct	100
Morgan Sindall Limited	Direct	100
Morgan Sindall Trustee Company Limited	Direct	100
Morgan Utilities Group Limited	Direct	100
Muse Developments Limited	Direct	100
Roberts Construction Limited	Direct	100
Sindall Eastern Limited	Indirect	100
Snape Design & Build Limited	Indirect	100
Stansell Limited [t][7]	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, BakerHicks ApS, registered and operating in Denmark, BakerHicks GmbH, registered and operating in Austria and Germany, and BakerHicks SA, registered and operating in Denmark, all undertakings are registered in England and Wales or Scotland and the principal place of business is the UK.

Unless otherwise stated, the registered office address for each of the above is Kent House, 14–17 Market Place, London, W1W 8AJ.

Notes to the Company financial statements continued

2 Investments continued

Registered office classification key:
(a) One Eleven, Edmund Street, Birmingham, West Midlands, B3 2HJ
(b) c/o Anderson Strathern LLP, 58 Morrison St, Edinburgh, EH3 8BP
(c) CMS Cameron McKenna, Cannon Place, 78 Cannon Street, London, EC4N 6AF
(d) The Lighthouse, 2nd Floor, 11 Mitchell Lane, Glasgow, G1 3NU
(e) Badenstrasse 3, 4057 Basel, Switzerland
(f) Albert-Nestler-Strasse 26, 76131 Karlsruhe, Germany
(g) Am Euro Platz 3, 1120 Wien, Austria
(h) Ground Solutions UK Ltd, A5 Optimum Business Park, Optimum Road, Swadlincote, Derbyshire, DE11 0WT
(i) One Coleman Street, London, EC2R 5AA
(j) Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington, WA5 3LP
(k) National Waterways Museum, South Pier Road, Ellesmere Port, Cheshire, CH65 4FW
(l) Willis Management (Guernsey) Limited, Suite 1 North, First Floor, Albert House, South Esplanade, St Peter Port, Guernsey, GY1 1AJ
(m) c/o Head of Legal Wirral Borough Council, Town Hall, Brighton Street, Wallasey, Wirral, CH44 8ED
(n) Fisher House, 84 Fisherton Street, Salisbury, SP2 7QY
(o) 7 Neptune Court, Vanguard Way, Cardiff, CF24 5PJ
(p) c/o Bech-Bruun Advokatpartnerselskab, Gdanskgade 18, 2150 Nordhavn, Denmark
(q) Boulevard Louis Schmidt 29 15, 1040 Etterbeek, Belgium
(r) 100 Avebury Boulevard, Milton Keynes, MK9 1FH
(s) One St Peter's Square, Manchester, M2 3DE
(t) c/o Mazars LLP, 30 Old Bailey, London, EC4M 7AU
(u) 45 Westminster Bridge Road, London, SE1 7JB
(v) c/o Mazars LLP, Capital Square, 58 Morrison Street, Edinburgh, EH3 8BP
(w) c/o Rendall & Rittner Limited, 13b St George Wharf, London, SW8 2LE

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).

Registered office classification key:
(1) Limited Liability Partnership
(2) Limited by guarantee
(3) Holding of ordinary and special shares
(4) Limited Partnership
(5) Holding of special shares
(6) Community Interest Company
(7) In liquidation
(8) Transferred out between 1 January 2024 and 21 February 2024
(9) Sold on 6 February 2024
(10) Incorporated between 1 January 2024 and 21 February 2024

The proportion of ownership interest is the same as the proportion of voting power held, except English Cities Fund and Hub West Scotland, details of which are shown in note 12 of the consolidated financial statements.

3 Provisions

	Self-insurance £m	Other £m	Total £m
1 January 2022	10.4	0.3	10.7
Utilised	(0.7)	(0.2)	(0.9)
Additions	1.5	2.7	4.2
Released	(2.5)	–	(2.5)
1 January 2023	**8.7**	**2.8**	**11.5**
Utilised	(1.0)	(1.8)	(2.8)
Additions	1.6	0.9	2.5
Released	–	–	–
31 December 2023	**9.3**	**1.9**	**11.2**
Current	1.2	1.7	2.9
Non-current	8.1	0.2	8.3
31 December 2023	**9.3**	**1.9**	**11.2**

Self-insurance provisions

Self-insurance provisions comprise the Group's self-insurance of certain risks. The Group makes provisions in respect of specific types of claims that are incurred but not reported (IBNR). The valuation of IBNR considers past claims experience and the risk profile of the Group. These are reviewed periodically and are intended to provide a best estimate of the most likely or expected outcome.

Other provisions

Other provisions include property dilapidations and other personnel-related provisions.

The majority of the provisions are expected to be utilised within 10 years.

Shareholder information

Analysis of shareholdings at 31 December 2023

Holding of shares	Number of accounts	Percentage of total accounts	Number of shares	Percentage of total shares
Up to 1,000	1,308	62.76	563,816	1.19
1,001 to 5,000	498	23.90	912,369	1.93
5,001 to 100,000	195	9.36	4,913,252	10.37
100,001 to 1,000,000	73	3.50	20,146,160	42.54
Over 1,000,000	10	0.48	20,822,129	43.97

Useful contacts

Morgan Sindall Group plc

Registered office
Kent House, 14–17 Market Place,
London, W1W 8AJ

Registered in England and Wales
Company number: 00521970

General queries

Email: cosec@morgansindall.com
Telephone: 020 7307 9200

Registrar

All administrative enquiries relating to shareholdings, such as lost certificates, changes of address, change of ownership or dividend payments and requests to receive corporate documents by email, should, in the first instance, be directed to the Company's registrar and clearly state the shareholder's registered address and, if available, the full shareholder reference number:

By post: Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ
By phone: +44 (0) 370 707 1695. Lines open 8.30am to 5.30pm (UK time), Monday to Friday
By email: webcorres@computershare.co.uk
Online: investorcentre.co.uk

Shareholders who receive duplicate communications from the Company may have more than one account in their name on the register of members. Any shareholder wishing to amalgamate such holdings should write to the registrar giving details of the accounts concerned and instructions on how they should be amalgamated.

Please note that the Company is no longer paying dividends by cheque. Shareholders who do not currently have their dividends paid directly to a UK bank or building society account should complete a mandate instruction available from the registrar on request or at investorcentre.co.uk by selecting 'Company info', Morgan Sindall Group plc, 'Printable Forms', 'Amendments' and 'Dividend Mandate Form'.

Financial calendar 2024

Ex-dividend date – final dividend	25 April 2024
Record date to be eligible for final dividend	26 April 2024
AGM and trading update	2 May 2024
Payment date for final dividend	16 May 2024
Half-year results announcement	August 2024
Interim dividend payable	October 2024
Trading update	November 2024

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
- information on how to manage your shares, including share dealing

Shareholder documents are made available via our website, unless a shareholder has requested hard copies from the registrar.

Forward-looking statements

This document and written information released, or oral statements made, to the public in the future by or on behalf of the Group, may include certain forward-looking statements, beliefs or opinions that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements give the Group's current expectations or forecasts of future events. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Without limitation, forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. No assurance can be given that any particular expectation will be met and shareholders are cautioned not to place undue reliance on any such statements because, by their very nature, they are subject to risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

All forward-looking statements contained in this document are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

There are several factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among the factors that could cause actual results to differ materially from those described in forward-looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, fluctuations in exchange and interest rates, changes in tax rates and future business combinations or dispositions.

Forward-looking statements speak only as of the date they are made. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure and Transparency Rules of the Financial Conduct Authority), the Group, its directors, officers, employees, advisers and associates disclaim any intention or obligation to revise or update any forward-looking or other statements contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise, except as required by applicable law.

Appendix – Carbon emissions background and terminology

Science-based targets

Following the global agreement on climate change action (CoP21, Paris, December 2015), companies were encouraged to set greenhouse gas emission reduction targets based on science. Targets are calculated according to the reduction required to keep global warming within an agreed level of temperature rise. Originally, the Paris Agreement was written around a 2°C warming model above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels. The calculation of targets varies according to industry sector and the contribution the sector makes to global emissions.

Science-based targets are calculated to decarbonise as much as possible as fast as possible and neutralise any residual emissions to the atmosphere by 2050. The Science Based Targets initiative (SBTi) is a collaboration between CDP, the United Nations Global Compact, World Resources Institute and World Wide Fund for Nature. The initiative uses the latest available climate science to define best practice in science-based target-setting, offers resources and guidance to reduce barriers to adoption, and independently assesses companies' assets against validation criteria.

Types of emissions

The Greenhouse Gas Protocol is a globally recognised framework for measuring and managing greenhouse gas emissions. The Protocol defines three types – scopes – of emissions:

Scope 1 (direct emissions) covers the direct emissions to air under an organisation's control. These mainly include gas boilers and fuel used in vehicle fleets.

Scope 2 (indirect emissions) covers the emissions produced during the generation of electricity purchased and consumed by an organisation.

Scope 3 covers all other indirect emissions, upstream and downstream of the business. There are **15 categories** for Scope 3 emissions. Some are relatively simple to measure and report (e.g. air travel and commuting), while others are more difficult (e.g. purchased goods and materials and products in use). The more straightforward are generally reported as part of an organisation's emissions (often referred to as 'limited disclosure'); we refer to these as our 'operational Scope 3 emissions'. If a company's Scope 3 emissions are 40% or more of its total emissions, reduction targets for Scope 3 need to be included as part of agreed science-based targets. This includes all 15 categories, where they are relevant or significant.

Our emissions

Our emissions are broken down as follows:

Scope 1

- other fuels – emissions via air conditioning (kg of gas recharge and gas type), generation of electricity (fuel consumption/litres of gas oil)
- company cars – petrol purchased on Arval fuel cards (litres)
- transport fuels
- natural gas (kWh)

Scope 2

Our Scope 2 emissions are calculated using location-based methodology: UK emission factors published by the Department for Energy Security and Net Zero.

As the generation of electricity shifts away from fossil fuels, these emission factors change. We therefore update our factors each year:

- electricity purchased (kWh)
- steam and heat purchased from off-site (kWh)
- electricity consumed in landlord-controlled offices (metres cubed of lease floor area)

Operational Scope 3

Our operational Scope 3 emissions fall into the following three categories: 3 (fuel and energy-related activities); 5 (waste generated in operations); and 6 (business travel). Specifically, they consist of:

- electricity – upstream generation, transmission and distribution losses;
- employees with travel allowances – petrol purchased via expense claims and mileage claims (miles);
- transport – other – public transport including air travel, train or tube (passenger miles), supplier freight (miles);
- waste – tonnes of waste produced that is not recycled or used and goes to landfill; and
- water and waste water – metres cubed of potable water consumption and waste water generation.

Wider Scope 3

Our wider Scope 3 emissions fall into the following categories: 1 (purchased goods and services); 2 (capital goods); 4 (upstream transportation and distribution); 7 (employee commuting); 8 (upstream leased assets); 9 (downstream transportation and distribution); 11 (use of sold products); 12 (end-of-life treatment of sold products); and 15 (investments). Specifically, they consist of:

- carbon embodied in materials (emitted during raw extraction, manufacture, transport to site, and disposal or recycling);
- carbon emitted during construction (via energy use and waste); and
- estimated carbon emitted from operating the buildings for 60 years following handover to the client, based on how our clients tell us they will use the buildings.

We are working with our supply chain and clients to gather this data.

More information on our wider Scope 3 emissions, including calculations and relevancy of categories, can be found in our CDP submission available on our website. Categories 9, 10, 13 and 14 have been classified as non-relevant to the Group.

Offsets

Offsets are a mechanism whereby companies can effectively buy 'credits' to reduce the balance of their carbon emissions. An offset is generally an investment in a recognised emission-reduction activity or process that reduces or removes carbon dioxide and other greenhouse gases, such as methane, from the atmosphere. Offsetting is a relatively complex subject and not all offsets are recognised by the United Nations, which publishes a list of recognised projects.

Offsets are not currently accepted as part of an organisation's science-based targets. However, according to the SBTi, the body responsible for approving and assuring science-based targets, offsetting can play two roles in science-based net zero strategies:

1. In the transition to net zero: companies may opt to compensate or to neutralise emissions that are still being released into the atmosphere while they transition towards a state of net zero emissions.
2. At net zero: companies with residual emissions within their value chain are expected to neutralise those emissions with an equivalent amount of carbon dioxide removals.

Net zero

The ambition of many countries and organisations is to become net zero, effectively having a zero account on their carbon balance sheet. True net zero emissions are represented by the SBTi's 2050 goal. However, not all industries will be able to meet this target, no matter what measures are implemented to reduce emissions. For example, current technology will not enable the aviation sector to become true net zero.

The current terminology for net zero is not the same as achieving zero emissions by 2050 (science-based targets). In the past, some companies have claimed to be carbon neutral (net zero) simply by purchasing a large amount of offsets (often forestry). It is still possible for a company to become 'net zero' almost immediately by offsetting. However, this does not ultimately achieve the goal of eliminating all emissions.

Responsible businesses are now approaching net zero by examining their carbon emissions trajectory (often one that has been approved by the SBTi) at two levels: reductions made possible by behavioural change; and reductions through development and implementation of new technologies. It is only then that any remaining emissions are offset.

The type of offsetting implemented to achieve net zero is currently up to the individual organisation, but there are many offsets provided on the market that do not meet accepted quality criteria. Quality carbon offset credits must be associated with greenhouse gas reductions or removals that are:

- additional (i.e. that the mitigation activity would not have taken place in the absence of the added incentive created by the carbon credits);
- not overestimated;
- permanent;
- not claimed by another entity; and
- not associated with significant social or environmental harms.

Source: 'Securing Climate Benefit – A Guide to Using Carbon Offsets'. Stockholm Environment Institute & Greenhouse Gas Management Institute.

Notes

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www.friendstudio.com.

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