

Extract from 2021 Annual Report - Directors' remuneration report continued

Remuneration policy

This part of the report sets out the Company's policy for the remuneration of executive and non-executive directors (referred to as either 'the remuneration policy' or 'the policy'). The policy is determined by the remuneration committee and is not subject to audit by the external auditor. The policy was last approved by shareholders at the 7 May 2020 AGM and received 97.41% of votes in favour. The policy is designed to be straightforward and sustainable, and to encourage the effective stewardship that is vital to delivering our strategy of creating long-term value for all stakeholders. It promotes long-term sustainable performance through significant deferral of remuneration in shares. Executive directors are expected to build and maintain substantial personal shareholdings in the business. The extent of their responsibilities means executive directors are well paid, but the policy is designed to, among other things, ensure that they are not overpaid. The committee did not formally consult with employees in respect of the design of the remuneration policy but will keep this under review.

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Base salary	<p>To provide competitive fixed remuneration.</p> <p>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.</p>	<p>Basic salary is reviewed annually by the committee or, if appropriate, in the event of a change in an individual's position or responsibilities.</p> <p>Salary levels are set by reference to market rates, taking into account individual performance, experience, company performance and the pay and conditions of other senior management in the Group.</p> <p>The committee will take into account the general increase for the broader employee population but on occasion may need to recognise, for example, an increase in the scale, scope or responsibility of the role.</p>	<p>There is no prescribed maximum annual increase.</p> <p>Current salary levels are presented on page 143.</p>	Not applicable.
Benefits	<p>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.</p> <p>Car or travel allowances to facilitate effective travel.</p>	<p>Current benefits include:</p> <ul style="list-style-type: none"> ■ travel allowance; ■ private medical insurance; ■ annual health screening; ■ ill health income protection insurance; ■ life assurance; ■ holiday and sick pay; ■ employee assistance programme; ■ professional advice in connection with their directorship; ■ travel, fuel, subsistence and accommodation as necessary; and ■ occasional gifts, for example appropriate long-service or leaving gifts. <p>Other benefits may be provided where appropriate in line with benefits offered to other employees.</p>	<p>The value of benefits is based on the cost to the Company and is not predetermined.</p> <p>The travel allowance is £17,000.</p>	Not applicable.

Directors' remuneration report: remuneration policy continued

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Pension	To provide a pension arrangement to contribute towards retirement planning.	<p>The Company will contribute to the defined contribution pension scheme, The Morgan Sindall Retirement Savings Plan (the Retirement Plan) or to personal pension arrangements at the request of the individual.</p> <p>The Company may also consider a cash alternative (for example where a director has reached the HMRC's lifetime or annual allowance limit).</p>	<p>Employer contributions are 10% of base salary for existing directors. New executive directors will receive an employer's contribution in line with that offered to the majority of employees (currently 6% of salary).</p> <p>Directors who are members of the Retirement Plan may elect to exchange part of their salary or bonus award in return for pension contributions, where the Company will enhance the additional contributions by half of the saved employer's National Insurance contribution.</p> <p>Employer contributions will be aligned with the majority of employees from 1 January 2023.</p>	Not applicable.
Annual bonus	Rewarding the achievement of demanding annual performance metrics.	<p>Performance measures and targets are reviewed annually by the committee.</p> <p>70% of any bonus earned is payable in cash and 30% is normally deferred for three years and satisfied in Company shares. Dividends accrue during the deferral period and may be paid in cash or shares at the time of release.</p> <p>The committee has discretion: (i) to override the formulaic outturn of the bonus to determine the appropriate level of bonus payable where it believes the outcome is not truly reflective of performance; and (ii) to ensure fairness to both shareholders and participants.</p> <p>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.</p>	<p>The maximum opportunity is 125% of base salary.</p> <p>Financial targets incorporate an appropriate sliding scale range around a challenging target.</p> <p>Target performance will typically deliver up to 50% of maximum bonus, with threshold performance typically paying up to 15% of maximum bonus.</p>	<p>All or a majority of the bonus will be based on adjusted* profit before tax (PBTA*), set relative to the Group's budget or such other financial measures as the committee deems appropriate.</p> <p>Financial targets will account for not less than 80% of the annual bonus.</p> <p>A minority of the bonus may be based on non-financial, strategic and/or personal objectives linked to the strategic objectives of the Group to provide a rounded assessment of Group and management's performance.</p>

Directors' remuneration report: remuneration policy continued

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
2014 Long-Term Incentive Plan (LTIP)	<p>To balance performance pay between the achievement of financial performance objectives and delivering sustainable stock market out-performance.</p> <p>To encourage share ownership and provide further alignment with the interests of shareholders.</p>	<p>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.</p> <p>Net LTIP shares vesting will typically be subject to a two-year holding period, creating a total of five years between the award being granted, and the first opportunity to sell.</p> <p>Performance targets are reviewed annually by the committee for each new award. Targets take account of internal strategic planning and external market expectations for the Group and are appropriate to the economic outlook and risk factors prevailing at the time, ensuring that such targets remain challenging in the circumstances, while remaining realistic enough to motivate and incentivise management.</p> <p>The TSR performance condition is monitored on the committee's behalf by its advisers, while EPS is derived from the Group's audited financial statements.</p> <p>Dividends that accrue during the vesting period may, at the committee's discretion, be paid in cash or shares at the time of vesting. The calculation of the dividend equivalent may assume the reinvestment of dividends.</p> <p>The committee has discretion: (i) to override the formulaic outturn of the performance targets to determine the appropriate level of vesting of the LTIP where it believes the outcome is not truly reflective of performance; and (ii) to ensure fairness to both shareholders and participants.</p> <p>Any use of committee discretion with respect to waiving or modifying performance conditions will be disclosed in the relevant annual report.</p>	150% of base salary.	<p>Awards are subject to performance conditions based on the Company's EPS and on relative TSR compared to a group of UK-listed peers.</p> <p>The committee has discretion to introduce additional performance condition(s) (to complement EPS and TSR) for up to one third of future awards.</p> <p>For both the EPS and TSR conditions, no more than 25% of the awards will vest for achieving threshold performance, increasing to 100% vesting for achievement of stretching performance targets.</p>

Directors' remuneration report: remuneration policy continued

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
All-employee Savings-Related Share Option Plan ('SAYE')	To encourage share ownership and provide further alignment with shareholders.	<p>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.</p> <p>Options are granted at up to a 20% discount.</p> <p>This scheme is open to all employees including executive directors.</p>	<p>Prevailing HMRC limits apply.</p> <p>The executive directors will be eligible to participate in any other HMRC all-employee share plans that may be implemented.</p>	Not applicable.
Non-executive directors' fees	Set to attract, retain and motivate talented individuals.	<p>Non-executive directors receive a basic annual fee in respect of their Board duties. Additional fees may be paid to the chairs of the committees and the senior independent director to reflect their additional responsibilities. The non-executive directors' fees are reviewed by the Board rather than the committee.</p> <p>The chair receives a fixed annual fee.</p> <p>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.</p> <p>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.</p> <p>Non-executive directors may take independent professional advice relating to their role as a director at the expense of the Company.</p>	<p>For the non-executive directors, there is no prescribed maximum annual increase.</p> <p>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.</p>	Not applicable.
Share ownership guidelines	To provide close alignment between the longer-term interests of executive directors and shareholders in terms of the Company's growth and performance.	<p>Executive directors are expected to build up and maintain shareholdings with a value set at 200% of basic salary.</p> <p>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.</p>	Not applicable.	Not applicable.

Directors' remuneration report: remuneration policy continued

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Post-employment shareholdings	To encourage long-term alignment with shareholders.	<p>The committee requires executive directors to maintain a level of shareholding for two years after stepping down from the Board.</p> <p>The committee will retain discretion about the application of post-employment shareholding guidelines in individual cases.</p>	<p>Executive directors will maintain the following shareholdings after they have stepped down from the Board:</p> <p>For the first 12 months, the lower of:</p> <ul style="list-style-type: none"> their shareholding at the time of leaving the business (excluding individually-purchased shares); and 200% of basic salary (this being the current in-post shareholding guideline). <p>For the second 12 months (i.e. between 12 months and 24 months), the lower of:</p> <ul style="list-style-type: none"> their shareholding at the time of leaving the business (excluding individually-purchased shares); and 100% of basic salary (this being half of the current in-post shareholding guideline). <p>At the end of 24 months, the directors will be free to sell their remaining shareholding if they wish.</p>	Not applicable.

Directors' remuneration report: remuneration policy continued

Existing arrangements

We will honour existing awards to executive directors, and incentives, benefits and contractual arrangements made to individuals prior to their promotion to the Board and/or prior to the approval and implementation of this policy. For the avoidance of doubt, this includes payments in respect of any award granted under the previous remuneration policy. This will last until the existing incentives vest (or lapse) or the benefits or contractual arrangements no longer apply. This does not apply to pension contributions for any newly-promoted executive directors which will be aligned with the rate offered to the majority of employees on promotion to the Board.

Service agreements

Executive directors

Executive directors have rolling service contracts that provide for 12 months' notice on either side. There are no special provisions that apply in the event of a change of control.

	Date of service contract
John Morgan	20 February 2012
Steve Crummett	5 February 2013

The Company allows executive directors to hold external non-executive directorships, subject to the prior approval of the Board, and to retain fees from these roles.

Non-executive directors

All non-executive directors have specific terms of engagement being an initial period of three years which thereafter may be extended by mutual consent, subject to the requirements for re-election, the Listing Rules of the Financial Conduct Authority (FCA) and the relevant sections of the Companies Act 2006.

	Appointment letter date	Month/year initial three-year term was extended	Month/year second three-year term was extended
Michael Findlay	1 October 2016	October 2019	–
Malcolm Cooper	9 November 2015	November 2018	November 2021
Tracey Killen	5 May 2017	May 2020	–
David Lowden	10 September 2018	September 2021	–
Jen Tippin	1 March 2020	–	–
Kathy Quashie	1 June 2021	–	–

The non-executive directors are subject to annual re-election by shareholders.

Termination provisions

Current executive directors' service agreements are terminable on 12 months' notice. In circumstances of termination on notice, the committee will determine an equitable compensation package, having regard to the particular circumstances of the case. The committee has discretion to require notice to be worked or to make payment in lieu of notice or to place the director on garden leave for the notice period. In respect of new hires, the initial notice period for a service contract may be longer than the policy of a 12-month notice period, provided it reduces to 12 months within a short space of time.

In case of payment in lieu or garden leave, base salary, accrued holiday, employer pension contributions and employee benefits will be paid for the period of notice served on garden leave or paid in lieu. The committee will endeavour to make payments in phased instalments and to apply mitigation in the case of offsetting payments against earnings elsewhere.

If a director leaves under a settlement agreement, life assurance cover may continue for up to three months after a director leaves the Company, subject to the director not obtaining alternative employment. In addition, the Company may agree that a director will remain covered under the private medical scheme until the next policy renewal date or if a director is mid-treatment at their leaving date until the course of treatment is concluded. The same provisions are available to all employees in the Company who receive these benefits.

The annual bonus may be payable in respect of the period of the bonus scheme year worked by the director; there is no provision for an amount in lieu of bonus to be payable for any part of the notice period not worked. The bonus would be payable at the normal date. Leavers would normally retain deferred bonus shares, albeit release would normally be at the end of the deferral period, with committee discretion to treat otherwise.

Long-term incentives granted under the LTIP will be determined by the LTIP rules which contain discretionary good leaver provisions for designated reasons (that is, participants who leave early on account of: injury; disability; death; a sale of their employer or business in which they were employed; statutory redundancy; retirement; or any other reason at the discretion of the committee). In these circumstances, a participant's awards will not be forfeited on cessation of employment and instead will vest on the normal vesting date. In exceptional circumstances, the committee may decide that the participant's awards will vest early on the date of cessation of employment. In either case, the extent to which the awards will vest depends on the extent to which the performance conditions have been satisfied and a pro rata reduction of the awards will be applied by reference to the time of cessation (although the committee has discretion to disapply time pro rating if the circumstances warrant it).

Leavers would normally retain vested LTIP shares subject to a holding period and these would normally be released at the end of the holding period with committee discretion to treat otherwise.

Where an executive director leaves by mutual consent, the Company may reimburse reasonable legal fees and tax advice costs, and pay for professional outplacement services.

Directors' remuneration report: remuneration policy continued

Recruitment remuneration

The committee considers the need to attract, retain and motivate the best person for each position, without paying more than is necessary.

External appointments

For external appointments, the committee would seek to align the remuneration package with the remuneration policy approved by shareholders, as follows:

Fixed elements	Approach	Maximum annual grant value
Base salary	The base salaries of new executive directors will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and their current basic salary. In the event that the committee elects to set the initial basic salary of a new appointee below market, any shortfall may be managed with phased increases over a period of two to three years subject to the individual's development in the role.	
Pension	New executive directors will receive Company contributions or cash alternative in line with that offered to the majority of employees (currently 6% of salary).	
Benefits	New executive directors will be eligible to receive benefits which may include (but are not limited to) travel allowances, private medical insurance, ill health income protection insurance, health screening, employee assistance programme, life assurance, holiday and sick pay, professional advice in connection with their directorship, travel, subsistence and accommodation as necessary, occasional gifts, for example appropriate long-service or leaving gifts, and any necessary relocation and/or incidental expenses. The Company may offer a cash amount on recruitment to reflect the value of benefits a new recruit may have received from a former employer.	
Annual bonus	The structure described in the policy table will apply to new executive directors, with the maximum opportunity being pro-rated to reflect the proportion of the financial year served.	125% of base salary
LTIP	New appointees will be granted awards under the LTIP on the same terms as other executives, as described in the policy table.	150% of base salary
SAYE	New appointees will also be eligible to participate in all-employee share schemes.	
Shareholding guidelines	New executive directors will be expected to build up a shareholding equivalent to 200% of basic salary in accordance with the terms set out in the policy table.	
Post-employment shareholding	The structure in the policy table will apply to new executive directors.	

In determining appropriate remuneration, the committee will take into consideration all relevant factors to ensure that arrangements are in the best interests of both the Company and its shareholders. The committee may additionally make awards or payments in respect of deferred remuneration arrangements forfeited on leaving a previous employer.

The committee will look to replicate the arrangements being forfeited as closely as possible and, in doing so, will take account of relevant factors, including the value of deferred remuneration; the performance conditions; and the time over which they would have vested or been paid. Any such arrangements would typically have an aggregate fair value no higher than the awards being forfeited.

Directors' remuneration report: remuneration policy continued

Internal promotion

In cases of appointing a new executive director by way of internal promotion, the committee will act in a manner consistent with the policy for external appointees detailed on page 139 and the provisions for existing arrangements, as set out on page 138, will apply.

Shareholders will be informed of the remuneration package and all additional payments to a newly-appointed executive director at the time of their appointment.

Non-executive directors

For the appointment of a new non-executive director, the fee arrangement would be set in accordance with the approved remuneration policy at that time.

Overview of remuneration policy for other employees

While our remuneration policy follows the same fundamental principles across the Group, packages offered to employees reflect differences in role and seniority. For example, the remuneration package elements for our Group management team are essentially the same as for the executive directors with some minor differences, such as lower levels of share awards and a lower shareholding requirement. Employees across the Group below Board level may be eligible to participate in an annual bonus arrangement. Long-term incentive awards and/or discretionary share options may be awarded to certain other senior executives and employees, for which the maximum opportunity and the performance conditions may vary by organisational level.

All employees are eligible to participate in the Group's SAYE scheme and to join either the Group's Retirement Plan or the B&CE's People's Pension. The Group also offers a broad range of benefits that are open to employees with eligibility for the different benefits determined on seniority. Benefits offered include: private medical insurance; digital GP service; income protection; child care vouchers; holiday plus scheme (option to purchase some additional holiday); death in service; employee assistance programme; and access to financial education.

Use of discretion

The committee will operate the incentive plans in accordance with their respective rules, the Listing Rules and HMRC rules where relevant. The committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plan rules. These include (but are not limited to) the following:

- who participates in incentives;
- the timing of grant of awards and/or payments;
- the size of awards (up to plan/policy limits) and/or payments;
- where the result indicated by the relative TSR performance condition should be scaled back (potentially to zero) in the event that the committee considers that financial performance has been unsatisfactory and/or the outcome has been distorted due to the TSR for the Company or any comparator company TSR being considered abnormal;
- measurement of performance in the event of a change of control or reconstruction;
- determination of good leaver status (in addition to any specified categories) for incentive plan purposes;
- payment of dividends accrued during the vesting period;
- adjustments required in certain circumstances (for example, rights issues, corporate restructuring and special dividends);
- adjustments to existing performance conditions for exceptional events so that they can still fulfil their original purpose;
- the release of deferred bonus shares for leavers;

- retention of LTIP shares subject to a holding period for leavers; and
- the application of the post-employment shareholding guidelines.

Malus and clawback

Awards under the annual bonus, the deferred bonus and the LTIP are subject to malus and clawback provisions which can be applied to both vested and unvested awards. Clawback provisions will apply for a period of three years post vesting. Circumstances in which malus and clawback may be applied include: for overpayments due to material misstatement of the Company's financial accounts; gross misconduct on the part of the award-holder; an error in calculating the vesting outcomes; or in the event of corporate failure. Participants in the Company's LTIP and deferred bonus scheme are required to acknowledge their understanding and acceptance of malus and clawback provisions prior to receiving their awards. The committee is satisfied that the recovery provisions are enforceable.