

Company number: 01977948

WATES CONSTRUCTION LIMITED

Annual Accounts and Reports

for the year ended

31 December 2020



Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

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Strategic report

The directors present their Strategic report which is followed by the Directors' report and the audited consolidated accounts for the year ended 31 December 2020.

Principal activities

The principal activities of the Wates Construction Group (the "Group") and parent company are providing customer-led construction products and services to the public and private sectors. The Group operates principally in the UK.

Business overview

The Group is a national business working with a wide range of customers, across the public and private sectors. The business is a partner on 65% of the UK's leading central and local government frameworks. These include national frameworks for the Crown Commercial Services, the Department for Education (DfE), Homes England, the Ministry of Justice, the Ministry of Defence and Scape Procure, for which it has completed major projects such as the carbon neutral Braywick Leisure Centre in Maidenhead and Nottingham College's new landmark City Hub campus.

The Group has an established presence in the residential sector, notably high-density city housing, student accommodation and senior living. It is a recognised leader in the design and construction of schools, colleges and universities, and has a growing presence in the construction of health, science and technology facilities.

The unprecedented challenge of COVID-19 proved a defining moment for the Group, accelerating a process of change which had been underway for some time. This process has been based on improvements in efficiency and productivity, embracing digital technology and offsite manufacturing, and continuing to pursue new and better ways of working.

The Group was one of the few major contractors to keep its sites open throughout the lockdown, pausing only briefly for site teams to implement the government-approved Site Operating Procedures, which included social distancing and enhanced safety and hygiene measures. By maintaining close dialogues with our customers and supply chain, the business continued working on all but two of its projects. Every site was operational by the autumn. Better use of workplace technology and digital conferencing platforms, holding briefings and inductions outside and adjusting shifts to make it easier to implement distancing consistently, meant that productivity levels held at around 75% throughout the crisis, rising to almost 98% by the end of the year.

The Group won new contracts with an aggregate value of more than £500m during the months of the pandemic. This included five schools under the new £3bn DfE Offsite Framework (MMC1). One of the highlights of 2020 was the project to extend The Royal London Hospital to provide 176 Intensive Care Unit beds for COVID-19 patients.

In what would turn out to be a proof of concept like no other, undertaken in the most pressured of situations, the Group mobilised its offsite manufacturing facility, Prism; its M&E specialist SES Engineering Services (SES); as well as Wates Building Services (WBS). Everyone worked together as one team to deliver an essential primary health project in record time at a moment of real need. The lessons learned will be instrumental in shaping the future of the business.

July saw a series of organisational changes, which included the creation of Wates Integrated Construction Services (WICS), bringing SES, WBS, Wates Drylining Services and Prism under one umbrella. Whilst each business will retain its unique capabilities and brand, WICS will make it easier to share resources efficiently and to share expertise improving operational effectiveness and speeding up the adoption of modern methods of construction. Recent projects such as Lillie Square and 7/8 Wellington Place have shown how offsite manufacturing can improve productivity, performance, quality and customer satisfaction.

In 2021, the Group will focus on exploiting the potential of WICS to drive innovation, efficiency and increased use of offsite manufacturing. It will continue to focus on meeting needs of its private sector customers whilst

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Strategic report continued

maintaining high levels of performance on its strategic public sector frameworks and increasing its presence in the health sector. It will achieve this by, amongst other things, encouraging an inclusive environment to help attract and build a diverse workforce of complementary talents and expertise.

Sustainability

References within this section of the report are to Wates Group Limited (the “Wates Group”), being the wider Group of which Wates Construction Limited and its subsidiaries are a member of. The Wates Group’s Guiding Framework commits the business to acting responsibly for people and the planet, and to ensuring that its impacts on health, happiness and the environment are positive. Although the year was dominated by the pandemic, 2020 was also characterised by an intensifying focus on climate change, biodiversity loss, social and economic inequality, and racism: issues the Wates Group is determined to address.

In January 2020, the Wates Group celebrated a major milestone in its ‘Zero Harm’ journey a year early, reaching a Lost Time Injury Rate of 0.050 against a target of 0.100. It also launched its environmental strategy, setting out how it aims to become a zero carbon, zero waste, and nature positive organisation by 2025. Wates maintained its trajectory towards a sustainable zero-harm working environment. The total number of RIDDOR-reportable injuries reduced by 10% from 2019 (although the Accident Incidence Rate was marginally higher than in 2019 because fewer hours were worked as a result of the pandemic). The Wates Group’s overall performance was 67% below the HSE construction industry average for 2019/20 and 57% below the BuildUK average. The Wates Group evolved its long-term approach to mental health and wellbeing to focus on eradicating absence due to work-related stress, empowering colleagues to find a better work-life balance and involving colleagues and communities in wellbeing-related initiatives.

The Wates Group responded to the pandemic with a communications strategy and campaign to support colleagues’ mental health and wellbeing; it provided employees working from home with financial support to help them make their homes safer and more comfortable places to work in; and made offices and sites ‘COVID-Secure’, ensuring workplaces were safe.

The pandemic has created a political and industry imperative to ‘build back better’. Many people are increasingly focused on reducing waste and energy consumption. In an Ipsos Mori poll conducted in June 2020, 66% of the UK population said that climate change is as serious as the COVID-19 health and economic crisis. The Wates Group remains committed to the environmental objectives it published at the start of 2020 and, during the year, secured 81% of energy from renewable sources, reduced CO2 emissions by 42%; and diverted 98% of waste from landfill.

Through its community, social enterprise (SE), and education and employability programmes, the Wates Group created over £15.2m of social value in support of local communities. In January 2020 it recognised the milestone of having spent a total of £20m with SEs – a target set in 2015 and which was attained in December 2019 – with a lunch attended by Social Enterprise Chair, Lord Victor Adebawale. Following this success, in November, the Wates Group launched its five-year social value strategy, ‘Creating Opportunities’, supporting the drive to develop sustainable communities by tackling inequality, inspiring and educating young people, and supporting growth in the social enterprise sector.

Financial performance

In 2020, the Group performed well in extremely challenging circumstances. Group turnover, including the Group’s share of joint ventures’ and associates’ turnover fell by 9.6% to £1.38bn (2019: £1.53bn). The Wates Group entered 2021 with a record forward order book of £6.6bn (2019: £5.9bn). Group (loss)/profit before tax including exceptional items (and before tax of joint ventures and associates) was a loss of £2.9m (2019: profit of £18.4m), down 115.9% on the previous year. The Group’s net assets fell to £116.7m (2019: £119.0m). The Group ended the year with cash of £199.8m (2019: £131.3m).

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Strategic report continued

Principal risks and uncertainties

References within this section of the report are to Wates Group Limited (the “Wates Group”), being the wider Group of which Wates Construction Limited and its subsidiaries are a member of, the financial statements for which may be obtained from the address stated in note 25.

Risk and mitigation	2020 activities
<p>A. Health and safety</p> <p>The Wates Group is involved in activities and environments that have the potential to cause serious injury to its stakeholders, or to damage property, the environment or the Wates Group’s reputation. It is reliant on a largely subcontracted workforce to operate to its high standards and procedures.</p> <p>The health and safety of all stakeholders is the Wates Group’s number one priority. In order to control risk and prevent harm, the Wates Group is focused on demonstrating the highest standards of health and safety management. This is achieved by establishing robust health and safety procedures and ensuring that effective leadership, culture and organisational arrangements are in place. The Wates Group monitors significant health concerns, maintaining contingency plans to manage its operations and respond proportionately to any emerging risks, whilst always ensuring the health of all its stakeholders with whom it interfaces.</p>	<p>The overall trends in Health and Safety incidents have been consistently good. COVID-19 has clearly had a significant health impact and the Wates Group has adopted Site Operating Procedures (SOPs) in line with government guidance. See ‘COVID-19 and the Group’s response’ on page 8 of the Wates Group financial statements for further details. Other actions have continued to address areas of risk, including additional working at height risk assessments, height protection plan reviews, manager briefings and tool box talks. There have also been wider leadership briefings at various levels across the organisation. The Wates Group continue to monitor mental health risks, wellbeing and fatigue.</p>
<p>B. Economic and market risk</p> <p>Demand for the services of the Wates Group is cyclical and may be vulnerable to sudden economic downturns, a lack of confidence in the housing market (impacting house prices and sales volumes) and the broader economy, reductions in government and private sector spending, unemployment, regulatory developments (including building and fire regulations) and increases in costs.</p> <p>The Wates Group’s strategic focus is on those market sectors in which a competitive advantage can be maintained and that have the most potential for profitable growth. To limit the impact of exposure on any one sector, the Wates Group has diversified its product and service offering across different market sectors. Members of its leadership team participate in political, economic and regulatory forums to maintain effective working relationships with the Government and regulatory authorities.</p>	<p>Economic and market conditions continue to be challenging due to COVID-19. The Wates Group continues to monitor the potential impact that COVID-19 will have on the economy, including any consequential impact on house prices, unemployment and public sector spending.</p> <p>The business maintains close monitoring of the markets in which it operates. Currently, there is a particular focus on completing second stage bids successfully. The Wates Group works for a wide range of public sector customers. This alignment to public sector organisations increases the resilience of the Wates Group’s pipeline of future work and continues to provide opportunities for future growth. Specific opportunities have been identified in market sectors such as Residential. Other sectors such as property maintenance have become more challenging.</p>

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Strategic report continued

<p>C. Brexit transition</p> <p>The Trade & Cooperation Agreement ("TCA") came into effect on 31 December 2020 and establishes the commercial and regulatory arrangements between the EU and the UK from the end of the Brexit transition period. The TCA provides for movement of goods between the UK and EU to be tariff and quota free. However, 'rules of origin' must apply where those goods are of EU/UK origin. The new Agreement also requires new customs procedures, VAT reporting and additional documentation. It is too early to assess with confidence the implementation of the TCA and its ramifications. There is a risk many of these arrangements may lead to delays in the shipment of goods across the UK's borders with the EU.</p> <p>The Wates Group continues to monitor the impact of the TCA and the implications for its businesses. It has developed robust plans to respond to a range of potential scenarios. This includes the impact of a 'no deal' at the end of the transition period. These scenario plans cater for changes in market conditions, complications with the movement and availability of the workforce, pressure on the supply chain, delays in the delivery of materials and components, changes in exchange rates and pricing impact of increased tariff and commodity costs. The Wates Group has included specific Brexit protection clauses in its contracts where this has been possible. The Wates Group has analysed the forward order book and does not at present see a significant impact on current or future projects. Where necessary, it carries significant inventories on projects to mitigate potential delays in supplies and has a clear line of sight of its subcontractors' supply chain. The Wates Group does not deliver any contract, projects or services to any other country in the EU.</p>	<p>The Wates Group's plans have been developed to reflect lessons learned during 2020. This has included rehearsing the potential impact of a range of Brexit-related disruptions. The Wates Group has prepared effectively to operate within the terms of the TCA.</p>
<p>D. Competition</p> <p>The construction sector is highly competitive with low margins. If it does not compete effectively in its market sectors, the Wates Group runs the risk of losing market share or trading unprofitably. While service quality, capability, reputation and experience are considered in customer decisions, price often remains one of the determining factors in contract awards.</p> <p>The Wates Group mitigates competitive risk by seeking to target projects where it has a competitive advantage and can manage effectively both costs and risks. The risk profile of every bid is assessed at the estimation stage to determine whether it is in line with the strategic objectives of the Wates Group. The Wates Group is highly selective at bid stage and will only take on work that it can deliver effectively and profitably.</p>	<p>Competitive intensity has increased with some competitors accepting COVID-19 related risks to chase cash at the expense of margins. The duration of COVID-19 government support measures has been extended and the withdrawal of these measures may increase competitive pressures in 2021 by pushing down margins. The Wates Group continues to be selective in the work it bids for and takes on.</p>

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Strategic report continued

<p>E. Project delivery</p> <p>Execution of projects involves professional judgement in estimating, planning, design and construction, often in complex environments. Each project could encounter difficulties that lead to cost and time overruns, lower revenues, litigation or disputes.</p> <p>The Wates Group's activities are guided by an Operating Framework that mandates rigorous policies and procedures throughout the project lifecycle. These, combined with comprehensive management oversight, the risk management process, project reviews, independent internal and external audits, peer reviews and customer feedback, help mitigate the risk to successful project delivery. There is close scrutiny of the financial judgements made on projects and the Wates Group takes a prudent view on the recognition of revenue and profit. It monitors significant external issues that could impact project delivery such as Brexit and maintains appropriate contingency plans.</p>	<p>Since COVID-19, project delivery is operating at a new level of 'normal' with a focus on safe productivity, drawing carefully on the experience that has been accumulated since the first wave of COVID-19. In some areas this has highlighted opportunities to improve efficiency. Customers continue to act pragmatically when collaborating with the Wates Group to manage the commercial impact of necessary project extensions. There is an increased focus on traditional risk areas such as quality.</p>
<p>F. Liquidity (Financial risk)</p> <p>Liquidity risk is the risk that the Wates Group will not be able to meet its financial obligations as they fall due and could affect its ability to invest, win work or pay staff and creditors.</p> <p>The Wates Group manages liquidity such that it always has sufficient liquidity to meet its liabilities when they fall due. The Wates Group continually monitors and stress tests its liquidity position. Funding arrangements are reviewed regularly and approved by the Wates Group Board.</p> <p>The Wates Group has access to a £120m Revolving Credit Facility that remains undrawn at 31 December 2020.</p>	<p>When the pandemic began, the Wates Group maintained, but did not significantly increase, its investment profile. Since March 2020, there has been an increased focus on liquidity. During the year, the strength of the balance sheet has improved. The business secured an additional £50m line of credit under the Coronavirus Large Business Interruption Loan Scheme. There are various other re-financing options now available to the Wates Group. In addition, many customers have continued to pay the business promptly. See 'Cash management' on page 70 of the Strategic report of the Wates Group financial statements for further details.</p>
<p>G. Appointing and retaining talent</p> <p>The success of the Wates Group is dependent on being able to attract and retain people that have the necessary capability, character, experience and expertise. Competition for highly skilled and talented employees is significant.</p> <p>The Wates Group seeks to offer market-competitive remuneration (which is reviewed regularly), excellent training and career development opportunities, and to be an attractive and engaging employer. The Wates Group is an Investors in People Gold accredited employer.</p>	<p>People risks are elevated because of the pandemic due to changes to site procedures, the impact of working at home and consequential impact on colleague interaction, pressures and mental health. More emphasis is being placed on supporting the workforce, with flexible working arrangements and a re-evaluation of the Wates Group's approach to remuneration. See People report on page 16 of the Wates Group financial statements for further details.</p>

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Strategic report continued

<p>H. Pension fund liabilities (Financial risk)</p> <p>The Wates Group carries a funding obligation for a defined benefit pension scheme. The pension fund liabilities could increase significantly leading to increased pension deficit payments and consequently a reduction in capital to invest in the Wates Group.</p> <p>The performance, risks and funding arrangements of the pension scheme are assessed regularly by the Wates Group Board and the independent trustees of the pension scheme and their advisors. Investment strategies aim to limit the impact of increases in the liabilities and are well diversified, ensuring a reasonable balance of risk and return. The Wates Group has committed to deficit funding payments to reduce the deficit.</p>	<p>Investment strategies were configured to limit the impact of increases in the liabilities from events such as COVID-19 and are well diversified, ensuring a reasonable balance of risk and return. COVID-19 had some limited impacts on investment value but only a modest impact on long term gilt yields, which are substantially hedged.</p>
<p>I. Systems, data, cyber security and GDPR</p> <p>A loss of the Wates Group's key systems through a lack of resilience or an information security breach or attack, could impact the successful delivery of its projects and lead to a loss of confidential data, damaging its reputation and brand.</p> <p>Robust controls and procedures are in place to monitor the performance of the Wates Group's systems and to identify and mitigate external threats. The Wates Group is continually developing and upgrading its IT infrastructure, software and cyber threat and assessment capabilities. The Wates Group continues to develop and enhance data protection procedures in line with regulations. The controls and procedures are subject to regular independent internal and external audit.</p>	<p>Although the cyber threat level has increased, with a high level of phishing attacks during the pandemic, the Wates Group's systems, processes and controls have been robust to withstand these threats. The security operations center (SOC) continues to provide an additional level of monitoring and support. The Wates Group has strengthened its IT infrastructure and made the significant investments in its systems. Infrastructure and support processes have adapted well to a changing working environment and there have been no significant changes to the control environment.</p>
<p>J. The environment</p> <p>The sectors in which the Wates Group works must, over time, reduce their impact on nature and the environment. This creates huge opportunities and challenges for the business. There is a risk that the Wates Group's activities have a harmful impact on the environment and that the business is too slow to mitigate the accelerated pace of climate change, reducing competitiveness and the business' ability to attract and retain quality staff.</p> <p>Customers are increasingly expecting the business to demonstrate how it protects the environment and reduces its carbon footprint and waste. There is a risk that the right investment or resources, including through the supply chain, are not in place to meet these challenges from climate change.</p> <p>The Wates Group has committed to a series of ambitious and deliberately stretching targets for creating zero harm to the environment and for having a positive impact on nature. These targets set out where the Wates Group needs</p>	<p>The Wates Group's environmental plans were launched in 2020 with the aim of achieving stretching targets in 2025.</p> <p>The pandemic slowed progress against these targets. There has, for example, been an increased use of single use materials, such as PPE and disposable cups, to combat the spread of infection.</p> <p>However, there have been COVID-19 related drops in emissions, as a result of a significant reduction in travel, as well as a fall in energy and water consumption because the Wates Group's non-site offices were closed for several months.</p> <p>See Streamlined Energy and Carbon Report (SECR) on page 56 of the Wates Group financial</p>

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Strategic report continued

J. The environment continued to be by 2025, outlining its commitment to eliminate harm to the environment and positively impact nature. These targets focus on achieving zero waste from Wates operations, zero carbon from Wates operations and commercial vehicles and achieving a positive impact on nature from operations by 2025.	statements for relevant environmental metrics.
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Analysis of financial key performance indicators

Group performance

In 2020, the Group performed well in extremely challenging circumstances. Group turnover, including the Group's share of joint ventures' and associates' turnover fell by 9.6% to £1.38bn (2019: £1.53bn). Total operating (loss)/profit including exceptional items and before interest and tax fell to a loss of £6.1m (2019: profit of £15.6m). The overall operating margin including exceptional items fell to (0.4)% (2019: 1.0%). (Loss)/profit before tax including exceptional items (and before tax of joint ventures and associates) was a loss of £2.9m (2019: profit of £18.4m), down 115.9% on the previous year.

In order to provide users with a clear and consistent presentation of the underlying financial performance of the Group, it has separately identified items that are considered to be exceptional because of their size or non-recurring nature:

- Government grant income of £6.9m (2019: £nil) received under the Coronavirus Job Retention Scheme in respect of furloughed employees
- Furlough costs of £10.9m (2019: £nil) consisting of salary costs paid to staff whilst on furlough who were therefore not performing any services for the Group
- Restructuring costs of £6.3m (2019: £nil) consisting of the costs of redundancy associated with the Wates Group's redundancy programme

Underlying operating profit before interest and tax was £4.2m (2019: £15.6m). Underlying operating margin was 0.3% (2019: 1.0%) and underlying profit before tax (and before tax of joint ventures and associates) was £7.4m (2019: £18.4m). The Group's statutory loss before tax was £2.9m (2019: profit of £18.4m) from statutory turnover of £1.38bn (2019: £1.52bn).

Construction group

The Construction Group consists of the Construction and SES business units, SES being the Group's Mechanical and Electrical subcontracting business. Construction turnover, including its share of joint ventures, was £808.3m (2019: £922.7m), 12.4% down on 2020.

Prior to the pandemic the Group was forecasting strong growth into 2020. When the pandemic hit in March the business worked quickly and efficiently with all stakeholders to review and revise site operating procedures. These revised procedures meant that 97% of sites were closed for less than three days and this work combined with a relentless focus on productivity, has allowed the business to continue to deliver for customers whilst consistently meeting the requirements of evolving government coronavirus advice.

For SES, 2020 began with a continuation of the previous year's strong underlying performance. The key areas of focus were efficient operational performance, the ongoing reduction of overheads and driving profitability while delivering a sustainable level of turnover. However, despite quickly evolving their operating procedures the subsequent impact of the COVID-19 pandemic has led to reduced turnover as COVID-19 delays impacted the third party sites where SES were working.

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Strategic report continued

Across all of the Group, the challenges posed by COVID-19 have highlighted the strength and resilience of The Group's people as well as the quality and depth of its relationships with both customers and supply chain. Work-winning activity has continued throughout the pandemic with an order book set to drive strong future turnover growth. The Group has also maintained its cash balance and posted excellent profits in the year. The business has also evolved significantly during the pandemic. The better use of technology, the lessons learned from the focus on productivity, the environment and its people mean the Group now has plans in place to permanently adapt its working practices to better fit the needs of its employees, customers and supply chain as it moves forward into 2021 and beyond.

Residential developments

Turnover for Residential, including share of joint ventures, increased by 21.1% to £153.4m (2019: £126.7m). Residential works continued on behalf of its public sector partners to deliver planning for development on publicly owned brownfield sites, including in 2020, strategically important sites in Harrow, Havering, Cardiff and Lee-on-the-Solent. In 2020, planning permission was achieved for 254 residential units (2019: 1,077) with decisions pending in relation to applications for a further 1,700 units (2019: 218). House building through joint ventures and public sector collaborations delivered 173 completions (2019: 290) from 20 active sites (2019: 17). Across these sites, there are 509 properties (2019: 612) still to be completed. The business also operates as a contractor for public sector customers and has worked on residential projects in the year containing 776 residential units (2019: 240).

Property services

Wates Property Services consists of the Living Space, Facilities Management and Smartspace business units. Turnover, including its share of associates' turnover, was £420.2m (2019: £478.3m), 12.2% down on 2019, reflecting the impact of the pandemic on the business.

Living Space and Smartspace within Property Services experienced the greatest impact from the pandemic, with many customers in both social housing maintenance and fit out postponing works during the first lockdown in the second quarter of 2020. Living Space is now operating at budgeted levels of activity, whilst Smartspace continues to see a reduction in new opportunities. The Facilities Management business has been least affected by the crisis, with most activities continuing as normal.

The business reacted quickly to the pandemic, rapidly reducing its cost base and adapting to new ways of working. With established leadership in place, all business units remain resilient with a strong forward order book of £1.47bn.

Cash flow

The Group's cash position improved throughout the year. At 31 December 2020, the gross cash balance was £199.8m (2019: £131.3m). Inflows from Group operating activities of £69.4m (2019: £35.6m) were partially offset by net outflows from investments in joint ventures of £0.3m (2019: £2.6m) and purchase of fixed assets of £0.6m (2019: £2.1m).

Section 172 Companies Act 2006

This report sets out how the Directors of Wates Construction Limited comply with the requirements of Section 172 Companies Act 2006 and how these requirements have impacted the Board's decision making throughout 2020. The report for Wates Group Limited (the "Wates Group") has been included in these financial statements as the Directors of the Company consider that the key decisions made are consistent with those included within the Wates Group report.

Engaging with stakeholders to deliver long term success is a key area of focus for the Board and all decisions take into account the impact on a wide range of stakeholders. Views of stakeholders are gathered in Board papers and inform the decisions made in Board meetings. Obviously, stakeholders are impacted by, or benefit from, decisions

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Strategic report continued

made by the Board in different ways. However, it is the Board's priority to ensure that the directors have acted both individually and collectively in the way that they consider, in good faith, would be most likely to promote the success of the Wates Group for the benefit of its members as a whole with regard to all its stakeholders and to the matters set out in paragraphs a-f of Section 172 of the Companies Act 2006.

Long-term strategy and vision

The Board operates a forward agenda of standing items appropriate to the Wates Group's operating and reporting cycles. Items requiring Board approval or endorsement are defined clearly. These include strategy and key contracts, as well as items required by law and regulation. The Board monitors or reviews progress against strategic priorities, risk management, health and safety or the adequacy of internal controls.

During much of 2020, the Board's focus has been primarily on the Wates Group's response to the pandemic (see 'COVID-19 and the Wates Group's response' on pages 8 to 15 of the Wates Group financial statements). The Board convened outside of the regular meeting schedule on 14 occasions to consider the Wates Group's response to the risks and opportunities created by the pandemic. The Executive Committee also met on 20 additional occasions to consider the Wates Group's response to the pandemic.

The Board has been involved in negotiations with the Pensions Trustee on both investment strategy and future deficit repair contributions. The negotiations have focused on finding the appropriate balance between funding the deficit within the next 6 years whilst ensuring that the business has the capacity to maintain financial resilience and invest in opportunities that will generate cash, profits and reserves in the future. The negotiations progressed satisfactorily and resulted in future annual contributions remaining constant at the same time as de-risking investment risk.

The Board annually approves an updated strategic plan (most recently the 2021 to 2023 strategic plan) and monitors its implementation throughout the year using detailed reports on operating and financial performance. In approving the plan, the Board considers factors such as competitor behaviour, the performance of the construction industry, as well as the evolving economic, political and market conditions. In January 2020, the Wates Group launched its environmental campaign setting out its sustainability ambitions (see page 48 of the Wates Group financial statements for further details) and will continue to consider its response to climate change and biodiversity loss. The Board established a list of strategic priorities that are to be addressed by management throughout 2021. The Board will monitor and guide progress against these priorities during 2021.

Some specific 2020 outputs have included the reorganisation of the Wates Group to intensify its focus on the opportunities that lie ahead. Smartspace has become part of Property Services, giving that division greater critical mass. Residential has become a standalone business unit (with leadership representation on the Executive Committee) to help the Wates Group prioritise and strengthen its relationships with the key public sector customers. SES, Wates Building Services and Prism were brought together to form Wates Integrated Construction Services, which will help drive and coordinate the Wates Group's efforts to integrate its delivery capabilities (including through modern methods of construction). Developments will invest in new House Building Joint Ventures, in its Development Agency Services offering and in its new Partnerships business, which will allow the Wates Group to participate in the entire lifecycle of projects from land acquisition through to the maintenance of the assets it creates.

The strategy meetings also gave the Board the opportunity to determine where the Wates Group's available capital should be invested. Investments will be made in the businesses detailed above in a way that balances expected returns and the risks caused by changing economic and market conditions.

In setting the long-term strategic plan, as well as the day to day management of the business, the Board considers the key stakeholders referred to in the table below.

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Strategic report continued

EMPLOYEES		
How the Wates Group engages	Outcomes	Further details
<ul style="list-style-type: none"> Wates Group annual roadshow led by the Chief Executive (the roadshow was conducted virtually in 2020) Biannual employee survey Site and office visits by shareholders, directors and members of the Executive Committee Video content from the family and executive directors Wates Group-wide newsletters and emails Social media channels Intranet blogs Wates Group leadership calls for messaging cascaded to workforce Webinars (including 'Inclusion month') Emails from the Chief Executive 	<ul style="list-style-type: none"> Announcement of enhanced family leave policies signalling the intent to be an inclusive employer Communication on approach to flexible working and office closures (in line with government guidance) Communication providing information about the actions the Wates Group is taking to become more inclusive, diverse and anti-racist To ensure the long-term success and prosperity of the Wates Group the Board had to make some challenging decisions around furlough, temporary pay cuts (that have subsequently been repaid), redundancies and a reduction in agency staff. These decisions protected jobs for many of the Wates Group's employees. The pay of all furloughed staff was topped up by the business to a minimum of 70% of their full salary. Pay rises approved from April 2021 	<ul style="list-style-type: none"> 'COVID-19 and the Group's response' on pages 8 to 15 of the Wates Group financial statements 'People' on pages 16 to 17 of the Wates Group financial statements
CUSTOMERS		
How the Wates Group engages	Outcomes	Further details
<ul style="list-style-type: none"> Regular customer engagement surveys by external companies Meetings (either face-to-face or virtually) Contract negotiation, ongoing management, site visits etc. Indirect engagement through the Wates Group website, social media interaction, project reports and marketing materials Communication about changes to legislation (e.g. Domestic Reverse Charge VAT) Quarterly newsletter 	<ul style="list-style-type: none"> Review by the Board of Net Promoter Score (NPS) survey outcomes on a monthly basis to monitor progress in improving customer engagement Positive feedback received from customers (e.g. on the Wates Group's work at The Royal London Hospital extension) Regular, effective and collaborative communication with customers about the Wates Group's efforts to mitigate the effects of the pandemic on their projects and contracts Delivering safely, to a high quality, on time and in line with contractual requirements 	<ul style="list-style-type: none"> 'Healthcare case study' on page 20 of the Wates Group financial statements 'Cash management' on page 70 of the Strategic Report of the Wates Group financial statements

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Strategic report continued

SUPPLY CHAIN		
How the Wates Group engages	Outcomes	Further details
<ul style="list-style-type: none"> • Dedicated team responsible for supply chain relationships • Meet the Buyer events • Email bulletins to suppliers (including changes in regulations) • Health and safety training • Supply chain workshops • Meetings (either face-to-face or virtually) • Contract negotiation, ongoing management, site visits etc. • Indirect engagement through the Wates Group website, social media interaction and project reports 	<ul style="list-style-type: none"> • Supporting partners through changes in regulation (e.g. Domestic Reverse Charge VAT) • The Wates Group's consistent approach with its supply chain over many years put it in a good place to respond effectively to COVID-19. The Wates Group implemented improved site communications, health and safety and amenities in response to COVID-19 • Compliance with the Prompt Payment Code ensuring that at least 95% of invoices are paid within 60 days 	<ul style="list-style-type: none"> • 'Principle 6 Stakeholders' on page 78 of the Wates Group financial statements

FINANCIAL INSTITUTIONS		
How the Wates Group engages	Outcomes	Further details
<ul style="list-style-type: none"> • The CFO and treasury function meet regularly with banks and providers of bonds • Presentation of annual budgets and strategic plans • Quarterly performance reporting 	<ul style="list-style-type: none"> • Financial institutions gain a stronger understanding of the Wates Group's performance and operations • Approval and draw down of £50m additional funding through the Coronavirus Large Business Interruption Loan Scheme (CLBILS) • Ongoing covenant compliance and strong average daily net cash of £88.0m (2019: £29.5m). 	<ul style="list-style-type: none"> • 'Cash management' on page 70 of the Strategic report of the Wates Group financial statements

COMMUNITIES AND ENVIRONMENT		
How the Wates Group engages	Outcomes	Further details
<ul style="list-style-type: none"> • Local community events (e.g. "Meet the Buyer") • Focused expenditure with Social Enterprises (SEs) • Direct engagement through membership of the Considerate Constructors Scheme • Support of charitable programmes 	<ul style="list-style-type: none"> • In 2020 the Wates Group spent £7.6m on SEs taking the cumulative spend to £29m. Since the engagement with SEs began in 2007, over £51m of social value has been created. • The Wates Group launched its Social Value Strategy "Creating Opportunities" 	<ul style="list-style-type: none"> • 'Sustainability Report' on pages 44 to 53 of the Wates Group financial statements

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Strategic report continued

COMMUNITIES AND ENVIRONMENT continued		
How the Wates Group engages	Outcomes	Further details
<ul style="list-style-type: none"> Member of UK Green Building Council (UKGBC) 	<ul style="list-style-type: none"> The Wates Group continued to contribute to Wates Giving, the charitable programme of the Wates Family Enterprise Trust. In 2020, this support amounted to £0.8m (2019: £1.5m) taking the total amount given since 2008 to £14.3m. Information on the Wates Group's environmental strategy and engagement campaign and environmental impact can be found on page 48 of the Wates Group financial statements Wates can shape best practice in the industry and influence national and local policy on climate change in the built environment. Creating jobs locally and engaging in local communities where the Wates Group works Supporting young people into the workplace 	<ul style="list-style-type: none"> 'Wates Family Enterprise Trust' on pages 58 to 59 of the Wates Group financial statements
SHAREHOLDERS		
How the Wates Group engages	Outcomes	Further details
<ul style="list-style-type: none"> The Wates Group interfaces with shareholders through away days, corporate events, interaction with the Wates family office and through the Wates Group Board (five members of the fourth generation of the Wates family are members of the Wates Group Board) Annual General Meeting (AGM) Preparation of the annual report helps shareholders understand the business and the performance in the year 	<ul style="list-style-type: none"> The directors have a regular dialogue with its members, through both the members of the Board and other shareholders, enabling them to establish the issues most important to them Strategic plan agreed for 2021-2023 The reorganisation of the Group in 2020 focused on opportunities that meet the long-term requirements of the shareholders 	<ul style="list-style-type: none"> 'Corporate Governance Report' on pages 76 to 80 of the Wates Group financial statements

Standards of business conduct

The Board is keenly aware of the need to maintain high standards of business conduct. Sir James Wates (Chairman), on behalf of the Secretary of State for Business, Energy and Industrial Strategy, chaired an industry group on corporate governance for large privately-owned companies in 2018. The Wates Group has a strong ethical culture, underpinned by its purpose, behaviours and its Code of Conduct. The Code of Conduct sets out the standards that all employees of Wates must follow.

Wates Construction Limited Annual Accounts and Reports 2020

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Strategic report continued

The directors take very seriously their responsibility to ensure the Wates Group is a good corporate citizen. Business creates wealth that, through taxes, delivers the investment which, if properly managed by politicians, leads to a fairer and more prosperous society. In 2020, the Wates Group (including its share of joint ventures) contributed taxes, all within the UK, whether borne by the Wates Group or collected on behalf on HMRC of £106.9m (2019: £161.2m). The Wates Group accessed funding of £7.7m through the Coronavirus Job Retention Scheme in respect of furloughed employees. The Wates Group is proud of the part it plays in the industry's contribution through its economic activity.

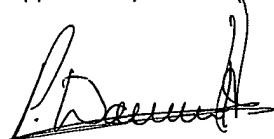
	Notes	2020 £000s	2019 £000s
Taxes paid in the year (note 1)			
Taxes borne by the Wates Group			
Corporate income tax (receipts)/payments		(334)	6,204
Employment-related taxes	2	27,185	29,480
Other taxes	3	5,211	5,715
		32,062	41,399
Taxes collected for HM government (in addition to taxes borne above)			
Employment-related taxes	4	59,771	67,046
VAT	5	15,064	52,740
		74,835	119,786
Total tax contribution (taxes generated by the Group from Wates Group activity)		106,897	161,185
Government grant income received	6	(7,727)	-
Total tax contribution (taxes generated by the Group from Wates Group activity) net of Government grants received		99,170	161,185

Notes

- 1) All taxes are paid in the UK; none in other jurisdictions
- 2) Employer national insurance contributions, income tax paid on benefits in kind and apprenticeship and CITB levies
- 3) Business rates, insurance premium tax, stamp duty land tax, irrecoverable VAT, fuel duty and vehicle and other taxes
- 4) Income Tax and employee national insurance contributions deducted from salaries and wages
- 5) Net VAT collected and paid. Payments in 2020 were lower due to the Wates Group utilising the Government's VAT Deferral New Payment scheme.
- 6) Government grant income received through the Coronavirus Job Retention Scheme in respect of furloughed employees

The Board has approved the Wates Group's policies on anti-slavery and human trafficking and anti-bribery and corruption (which can all be found on the Wates Group's website www.wates.co.uk). The Board has also considered the data, and narrative, relevant to the Wates Group's Gender pay reporting in preparation for external publication, including proposed improvement plans to enhance performance.

Approved by the Board of Directors on 9 March 2021 and signed on its behalf by:



P. M. Wainwright
Director

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Corporate governance report

For the year ended 31 December 2020, under The Companies (Miscellaneous Reporting) Regulations 2019, the Company has applied the **Wates Corporate Governance Principles for Large Private Companies** (published by the Financial Reporting Council ('FRC') in December 2019 and available on the FRC website). The following paragraphs summarise how the Directors of Wates Construction Limited applied the principles over the past year. The report for Wates Group Limited has been included in these financial statements as the Directors of the Company consider that the application of the Principles are consistent with those included within the Wates Group report.

The Wates Group's website contains further supporting information on the Wates Principles (www.wates.co.uk/who-we-are/corporate-governance/).

Principle 1 – Purpose and leadership

The Wates Group continues to be governed by the Guiding Framework "Creating Tomorrow Together", which defines its purpose, goals and behaviours.



The focus of the Board during much of 2020 has been on the Wates Group's response to the pandemic – see page 8 of the Wates Group financial statements for further details. The goal of being "trusted" is about ensuring that the Wates Group has a reputation as one of the most trusted businesses anywhere, that it invests in its people and supply chain, that it treats them fairly and that it manages its risks and delivers its promises, safely, on time, at the right quality and without financial surprises.

To drive the Wates Group towards achieving its goal of becoming more 'progressive', a new diversity and inclusion Plan was introduced in 2019. In October 2020 the Wates Group celebrated its first 'Inclusion month', which kick-started an organisation-wide conversation on inclusion and helped raise awareness of the everyday actions that help and hinder inclusion. This was supported by some excellent events that were organised by the Wates Group's Inclusion and Diversity team.

The Wates Group is committed to having a workforce that more accurately reflects society and despite the distraction caused by the pandemic, is making progress against the challenging targets it set to achieve this by 2025:

- 40% Female (2020: 22%)
- 20% BAME (2020: 11%)
- 3% Disability (2020: 1%)
- 5% LGBTQ+ (2020: 1%)

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Corporate governance report continued

In 2020, the Wates Group announced a complete overhaul of its family-friendly policies, which now offer a number of industry-leading benefits. Paternity leave has been increased to eight weeks full pay and maternity leave has been increased to 26 weeks full pay (and a further 26 weeks Statutory Maternity Pay). The Wates Group has also introduced carers' leave, ensuring staff can take up to four weeks unpaid leave in a year, and bereavement leave at two weeks full pay if one of its employees loses a member of their immediate family. The new policies will help attract and develop a diverse workforce with an inclusive mindset, as well as helping to close the gender pay gap by enabling more sharing of responsibilities at work and home.

As part of the Wates Group's drive to become more 'sustainable', the Wates Group has set targets as part of its Environmental Strategy and Engagement Campaign – these are discussed in detail within the Sustainability Report on page 48 of the Wates Group financial statements.

In November, the Wates Group launched its social value strategy which will steer the next five years of its community investment and engagement. The strategy 'Creating Opportunities' aims to:

- Challenge inequality;
- Inspire and educate young people about careers in the built environment; and
- Support and scale the social enterprise sector.

Wates is driven by its purpose of working together to inspire better ways of creating the places, communities and businesses of tomorrow. Delivering social value is intrinsic to that purpose and to its goal of being a progressive and responsible employer. By considering social value in its business decisions, including the way it employs staff, engages with communities and buys products and services, it can cultivate a more sustainable and inclusive society, and demonstrate that business done well can be a force for good. This social value strategy is rooted in the Wates Group's belief that how it does business is as important as what it does.

Principle 2 – Board composition

The Board comprises a separate Chairman and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making across the Wates Group are maintained effectively, as well as a Chief Financial Officer, Executive Managing Director Wates Construction Group, three independent non-executives and five family members (including the Chairman). This size and composition is appropriate to the Wates Group's large yet focused business. Independent non-executive directors bring experience in property development, engineering, finance and audit, in addition to perspectives and challenge from outside the sectors in which the Wates Group operates.

The directors acknowledge that there is a relative lack of diversity on the Board, in particular when compared to the diversity and inclusion targets that were approved by the Board in 2019. The Board is committed to developing a more diverse workforce, including at the most senior levels.

The most recent formal effectiveness review of the Board (by an independent external advisor) took place in 2019. The review assessed that the Board was competent and well run and had the potential to become even more effective by clearly aligning its agenda to strategic development, encouraging all directors to share their thoughts, observations and instincts for the benefit of all, and engaging the whole Board more routinely in the active management of investor relations. The Board has been mindful of these findings during the year as it responded to the pandemic. A formal review is planned for 2021.

A biography for each Board director can be found on the Wates Group's website www.wates.co.uk/who-we-are/ and on pages 60 to 62 of the Wates Group financial statements.

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As at 31 December 2020

Corporate governance report continued

Principle 3 – Director responsibilities

The Board has a programme of eight principal meetings every year, plus an additional day for strategic planning. As part of every Wates Group Board meeting, the governance of the Wates Group is included as a standing agenda item. The Board's key areas of focus in 2020 are noted in the Section 172 Companies Act 2006 report on pages 10 to 15.

The Board receives regular and timely information on all key aspects of the business including health and safety, risks and opportunities, the financial performance of the business, strategy, operational matters, market conditions and sustainability, all supported by Key Performance Indicators (KPIs).

In response to the pandemic, the Wates Group heightened its focus on cash management through weekly meetings attended by various members of the Executive Committee and senior members of the finance team. On a precautionary basis, it determined that it would be prudent to draw down the Revolving Credit Facility in full (for 6 months) and to investigate the potential for accessing loan funding via the Coronavirus Large Business Interruption Loan Scheme. The Board regularly reviewed the Wates Group's cash flows, whilst considering potential downside scenarios, and deemed it appropriate to access the available funding to further support the strong levels of financial resilience. The Revolving Credit Facility was repaid in full in October 2020 as it was not required and this facility remains undrawn as at both 31 December 2020 and the date of this report. The Coronavirus Large Business Interruption Loan Scheme facility of £50m was fully drawn in October 2020 and remains fully drawn at both 31 December 2020 and the date of this report. At no point did the Wates Group foresee, or experience, a breach in its banking covenants.

The Board approves an updated strategic plan for at least the next 3 years on an annual basis. For details of the output of the strategic plan see the Section 172 Companies Act statement on page 11.

To support good governance the Audit Committee regularly reviews the relationship with the external auditors and has a policy that, at least every ten years, the external audit will be considered for re-tender. The Wates Group commenced a tender process in 2019 that resulted in BDO LLP becoming the statutory auditors. The Board will recommend reappointment of BDO for 2021.

Principle 4 – Opportunity and risk

The Board seeks out opportunity whilst mitigating risk. The Company's key operational risks and mitigations are outlined in the Strategic report (and are denoted as 'Principal risks'). The Board also considers all major projects (as defined by their value and risk profile) and approves them before any bids are finalised.

In previous years, the Wates Group had an active Risk Committee, consisting of Executive Committee members and business unit and functional leads, which ensured that inherent and emerging risks were identified and managed appropriately and in a timely manner. In 2020, the Wates Group made an active decision to disband this committee as it was deemed more appropriate for this responsibility to be managed directly by the Executive Committee. This was, in part, due to the heightened risk that came from the COVID-19 pandemic as well as the Brexit transition. Day to day risks are managed by the Business Unit Boards and then consolidated and reported through the Executive Committee to the Wates Group Board.

The focus of the Executive Committee and Board has been considering the risks, mitigations and opportunities associated with the pandemic and the Wates Group's response to it. They have focused on ensuring the Wates Group could continue to operate through the pandemic, reviewing site operating procedures, ensuring colleague welfare, health and safety and working with the supply chain to handle pandemic and Brexit uncertainties. They have had to manage the impact on the Wates Group's financial performance of lower levels of activity, revised customer needs and expectations, of unbudgeted items such as the costs of the Wates Group-wide redundancy programme, the net costs of furloughing staff (whilst subsidising a proportion of their pay) and the additional financing costs associated with drawing down bank funding on a precautionary basis. The Executive Committee (as delegated by the Board) also considers risks as part of the day to day management of the business. These risks are discussed further on pages 5 to 9.

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Corporate governance report continued

The introduction of the Wates Corporate Governance Principles for Large Private Companies has highlighted a need for the Executive Committee to focus on opportunities as well as risks and this has now been incorporated into the monthly Committee meetings. Some of the opportunities that have been considered include leveraging the Wates Group's extensive frameworks, additional investment opportunities, maximizing the integration of the Wates Group's delivery capabilities, cost rationalisation and also the potential impact of the Wates Group's diversity and inclusion, social value and carbon reduction plans.

Principle 5 – Remuneration

The Remuneration Committee's primary objective is to set remuneration at a level that will enhance the Company's resources by securing and retaining quality senior management who can deliver the Wates Group's strategic ambitions in a manner consistent with both its purpose and the interests of its shareholders.

The impact of the pandemic had an immediate significant financial impact on the Wates Group's performance. To respond to this, the Board implemented several measures that impacted the remuneration of the workforce, including temporary pay cuts (April to June) and the suspension of pay rises that were intended for the second quarter of the year. Temporary pay cuts were reimbursed to non-furloughed employees who were still employed by the business in February 2021 and the suspension of pay rises has been lifted. These are discussed within the Section 172 Companies Act 2006 Report on pages 10 to 15.

The Wates Group engaged an external reward specialist in 2018 to advise on the restructuring of its Executive incentive arrangement. This scheme was successfully implemented in 2019. Due to the financial results of the Wates Group, the Remuneration Committee recommended that no bonuses would be paid in respect of 2020 performance. The directors' remuneration is disclosed on page 42 (note 6).

In 2020, management's focus has been on a second phase of the remuneration review with the aim of ensuring that the principles of the Executive incentive arrangement are applied to the wider employee population. Despite the delays caused by the pandemic, this review has established a set of fundamental principles that will be adopted for 2022 and beyond. The Wates Group will be operating under its existing remuneration arrangements for the wider employee population in 2021.

The Wates Group continues to publish its gender pay reporting externally. The diversity and inclusion plan includes changes that should lead to show improvements in this area.

Principle 6 – Stakeholders

The Board is clear that good governance and effective communication are essential on a day-to-day basis to enable the business to fulfill its purpose and to protect the Company's brand, reputation and relationships with all its stakeholders including shareholders, customers (including government), employees, suppliers, financial institutions and the communities in which it works.

The health and safety of the Wates Group's employees (and other stakeholders) remains its number one priority and the directors review the performance in this area at each scheduled meeting. The Board's commitment to creating a sustainable zero-harm working environment has resulted in an industry-leading performance for four consecutive years.

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Corporate governance report continued

The Wates Group continues to publish data evidencing its payment performance as part of the duty to report on payment practices and performance. The speed with which contractors pay their suppliers is a key area of focus within the construction sector. One of the key metrics is the number of invoices paid within 60 days. The Prompt Payment Code requires members to pay at least 95% of invoices within 60 days. The Wates Group predominately trades through two statutory entities that operate as a main contractor and report their payment performance externally. For the six-month period ending 31 December 2020, Wates Construction Limited has paid 97% of its invoices within 60 days (H2 2019: 96%) and Wates Property Services Limited has paid 98% of its invoices within 60 days (H2 2019: 94%).

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Directors' report

The directors present their Annual accounts and reports for the year ending 31 December 2020. This report must be read in conjunction with the Strategic report on page 3.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

D.O. Allen
S.J. Beechey
H.P. Bunch
P. Chandler
D.K.E. Morgan
S. J. Potter
P.C. Rowan
P.M. Wainwright

Director's indemnity

A director benefited from a qualifying pension scheme indemnity provision during the financial year and benefits from this at the date of this report.

Dividend

No dividends were declared or paid in the year (2019: £4.2m).

Streamlined energy and carbon report

The company has not presented a report on the grounds that the company's energy and carbon information has been included in the Streamlined energy and carbon report presented in the company's parent company consolidated financial statements. For more information, see the Wates Group Limited Financial Statements which may be obtained from the address stated in note 25.

Health and safety

The Board remains committed to the effective management and monitoring of health and safety and to providing a safe working environment for all employees and partners and to keeping members of the public with whom the Wates Group comes into contact free from harm. The Wates Group's Zero Harm campaign 'we're safer together' remains a key strategic priority to further enhance the Wates Group's health and safety performance and to develop the leadership skills and behaviours required to achieve a positive and high performing culture.

Employees

The Wates Group recognises the importance of engaging employees to help them make their fullest contribution to the business, which is fundamental to achieving the Wates Group's strategy and long-term objectives. Wates uses a variety of media to inform employees about the Wates Group's development and prospects and seeks and listens to employees' views and opinions.

The Wates Group's annual roadshow, which is open to all employees, is the forum by which the Chief Executive informs and updates staff on the Wates Group's performance, plans and future outlook and provides employees with an opportunity to ask questions, or to seek clarification, on the Wates Group's purpose, goals and direction. A biannual employee survey is undertaken to allow colleagues to provide honest feedback about their experience working at Wates. Twice a year, the Wates Group's senior leadership team convene to share knowledge, disseminate good practice and to discuss strategic priorities. Informal meetings are held at business unit and regional levels and further communication is affected through the use of a group-wide intranet and enterprise social network, electronic bulletins, notice boards, social media, the Wates Group's website and blogs from contributors from all parts of the Wates Group.

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Directors' report continued

The Wates Group is committed to improving the skills of employees through training and development and through nurturing a culture in which employees feel valued for their contribution and motivated to achieve their full potential. Statistics relating to the average number of people employed by the Wates Group during the year can be found in note 4 to the accounts.

Equal opportunities

The Wates Group is an active equal opportunities employer and promotes an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices are objective, free from bias and based solely upon work criteria and individual merit.

The Wates Group has for many years focused on fostering a diverse and inclusive working environment and has implemented specific development programmes to assist business leaders in engaging further with their teams and in demonstrating the contribution that each individual can make to the success of the Wates Group. The Wates Group is committed to growing a diverse pool of talent for purposes of long-term succession planning.

The Wates Group is committed to being actively and consistently anti-racist and has a zero tolerance approach to racism in all of its workplaces and in everything it does.

The Wates Group gives full and fair consideration to applications for employment made by disabled people and encourages and assists the recruitment, training, career development and promotion of disabled people. The Wates Group endeavours to retain and adjust the environment of employees who become disabled during the course of their employment.

Corporate responsibility

Corporate responsibility continues to remain an integral part of the Wates Group's business and long term strategic aspirations. The Wates Group's approach, priorities and objectives in the corporate responsibility arena, specific to the environment and communities in which it works, are published, communicated and embedded within the business as part of the Wates Group's overarching strategic objectives.

Research and development

The Wates Group is dedicated to the research and development of innovative construction methods and techniques, focusing on areas such as enhanced safety, project delivery, the development and integration of new materials and working techniques, energy efficiency and information modelling.

Donations

During the year the Group made charitable donations amounting to £0.9m (2019: £1.5m). No political donations were made in 2020 or 2019.

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- Each director has taken all the steps that he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Directors' report continued

Going concern

The directors have reviewed the forecast future performance of the Wates Group and the company and have prepared a cash flow forecast for 12 months from the date of approval of these financial statements. Taking into account the Wates Group's ongoing response to the pandemic, the directors consider that the Wates Group has sufficient cash reserves to continue trading, whilst meeting the financial covenants set within its Revolving Credit facility and the Coronavirus Large Business Interruption Loan Scheme facility.

Accordingly, the directors continue to adopt the going concern basis in preparing the company's accounts. Further details regarding the adoption of the going concern basis can be found in note 1 to the accounts.

Post balance sheet events

There were no post balance sheet events requiring disclosure.

Approved by the Board of Directors on 9 March 2021 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'P. M. Wainwright', is written over a horizontal dashed line.

P. M. Wainwright
Director

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Statement of Directors' Responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Accounts and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in UK and Republic of Ireland' and applicable law). 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 Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable UK Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the ultimate parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Independent auditor's report to the members of Wates Construction Limited

Opinion on the financial statements

In our opinion 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 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Wates Construction Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2020 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Cash Flow Statement and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Independent auditors' report to the members of Wates Construction Limited continued

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud.

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Independent auditors' report to the members of Wates Construction Limited continued

Our audit procedures were designed at Group and significant component levels to respond to the risk, recognising that 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.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, financial reporting legislation, the Companies Act 2006, distributable profits legislation and tax legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items. Our tests included agreeing the financial statement disclosures to underlying supporting documentation, review of board and committee meeting minutes, enquiries with management, enquiries of external legal advisors, review of correspondence with external legal advisors and review of external press releases.

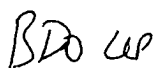
There are inherent limitations in the audit procedures described above and, the further removed noncompliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates. We addressed the risk of management override of internal controls through testing journals, in particular any entries posted with unusual account combinations or posted by senior management. We evaluated whether there was evidence of bias by the Directors in accounting estimates that represented a risk of material misstatement due to fraud. We challenged assumptions and judgements made by management in their significant accounting estimates, in particular in relation to contract accounting.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Charles Ellis (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
9 March 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Consolidated profit and loss account

For the year ended 31 December 2020

	Notes	Underlying 2020 £000s	Exceptional (note 3) 2020 £000s	Statutory 2020 £000s	Statutory 2019 £000s
Turnover:					
Group and share of joint ventures and associates		1,381,873	-	1,381,873	1,527,740
Less share of turnover of joint ventures and associates		(5,746)	-	(5,746)	(3,920)
Group turnover	2	1,376,127	-	1,376,127	1,523,820
Cost of sales		(1,248,972)	(13,683)	(1,262,655)	(1,367,305)
Gross profit/(loss)		127,155	(13,683)	113,472	156,515
Administrative expenses		(123,085)	(3,470)	(126,555)	(141,411)
Other operating income		-	6,877	6,877	-
Profit on sale of investment in joint venture		-	-	-	572
Group operating profit/(loss)	4	4,070	(10,276)	(6,206)	15,676
Share of post-tax loss from joint ventures and associates	11	(239)	-	(239)	(253)
Total operating profit/(loss): Group and share of joint ventures and associates:		3,831	(10,276)	(6,445)	15,423
Analysed between:					
Total operating profit/(loss) before interest and tax		4,173	(10,276)	(6,103)	15,627
Net interest payable – joint ventures and associates		(352)	-	(352)	(192)
Taxation – joint ventures and associates		10	-	10	(12)
Interest payable and similar charges	7	(85)	-	(85)	-
Interest receivable	7	3,614	-	3,614	2,960
Profit/(loss) before taxation		7,360	(10,276)	(2,916)	18,383
Analysed between:					
Profit/(loss) before taxation and before taxation of joint ventures and associates		7,350	(10,276)	(2,926)	18,395
Taxation – joint ventures and associates		10	-	10	(12)
Taxation (charge)/credit on profit/(loss)	8	(1,443)	1,952	509	(3,214)
Profit/(loss) for the financial year		5,917	(8,324)	(2,407)	15,169

The above results have all been derived from continuing operations.

Consolidated statement of comprehensive (expense)/income

For the year ended 31 December 2020

	2020 £000s	2019 £000s
(Loss)/profit for the financial year	(2,407)	15,169
Currency translation difference on foreign currency net investment	116	232
Other comprehensive income for the year	116	232
Total comprehensive (expense)/income for the year	(2,291)	15,401

The profit and total comprehensive (expense)/income for the financial years set out above is all attributable to equity shareholders of the Company.

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Company number: 1977948

Consolidated balance sheet

As at 31 December 2020

	Notes	2020 £000s	2019 £000s
Fixed assets			
Intangible assets - Goodwill	9	45,059	48,536
Tangible assets	10	3,742	4,778
Investments in joint ventures and associates	11	4,740	4,655
Other investments	11	362	381
		53,903	58,350
Current assets			
Stocks	12	21,338	29,712
Debtors			
- due within one year	13	322,581	415,346
- due after more than one year	13	25,660	34,981
		348,241	450,327
Cash at bank and in hand	14	199,789	131,319
		569,368	611,358
Creditors: amounts falling due within one year	15	(470,004)	(520,486)
Net current assets		99,364	90,872
Total assets less current liabilities		153,267	149,222
Creditors: amounts falling due after more than one year	16	(17,941)	(21,321)
Provisions for liabilities	17	(18,637)	(8,921)
Net assets		116,689	118,980
Capital and reserves			
Called up share capital	20	28,000	28,000
Profit and loss account	20	88,689	90,980
Shareholders' funds		116,689	118,980

The notes on pages 33 to 53 form part of these accounts

Approved by the Board of Directors on 9 March 2021 and signed on its behalf by:



P. M. Wainwright
Director

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Company number: 1977948

Company balance sheet

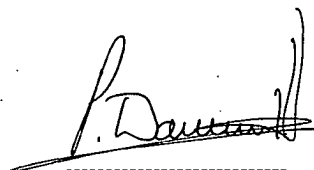
As at 31 December 2020

	Notes	2020 £000s	2019 £000s
Fixed assets			
Tangible assets	10	1,018	1,025
Investments	11	82,976	82,544
		83,994	83,569
Current assets			
Stocks	12	21,246	29,505
Debtors			
- due within one year	13	264,907	339,662
- due after more than one year	13	19,145	27,765
		284,052	367,427
Cash at bank and in hand	14	172,685	105,474
		477,983	502,406
Creditors: amounts falling due within one year	15	(403,387)	(433,645)
Net current assets		74,596	68,761
Total assets less current liabilities		158,590	152,330
Creditors: amounts falling due after more than one year	16	(13,316)	(16,977)
Provisions for liabilities	17	(18,637)	(8,921)
Net assets		126,637	126,432
Capital and reserves			
Called up share capital	20	28,000	28,000
Profit and loss account	20	98,637	98,432
Shareholders' funds		126,637	126,432

The notes on pages 33 to 53 form part of these accounts

The profit for the year dealt with in the accounts of the parent company was £205,000 (2019: £18,606,000).

Approved by the Board of Directors on 9 March 2021 and signed on its behalf by:



P. M. Wainwright
Director

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Consolidated statement of changes in equity

At 31 December 2020

	Called up share capital £000s	Profit and loss account £000s	Total equity £000s
At 31 December 2018	28,000	79,779	107,779
Profit for the financial year	-	15,169	15,169
Currency translation difference on foreign currency net investment	-	232	232
Share of the other comprehensive income of joint venture	-	-	-
Total comprehensive income	-	15,401	15,401
Dividends paid on equity shares	-	(4,200)	(4,200)
At 31 December 2019	28,000	90,980	118,980
Loss for the financial year	-	(2,407)	(2,407)
Currency translation difference on foreign currency net investment	-	116	116
Total comprehensive expense	-	(2,291)	(2,291)
At 31 December 2020	28,000	88,689	116,689

No dividends were declared or paid in the year. Dividends of £4,200,000 were declared in 2019 and paid on 28 March 2019.

Company statement of changes in equity

At 31 December 2020

	Called up Share Capital £000s	Profit and loss Account £000s	Total equity £000s
At 31 December 2018	28,000	84,026	112,026
Total comprehensive income	-	18,606	18,606
Dividends paid on equity shares	-	(4,200)	(4,200)
At 31 December 2019	28,000	98,432	126,432
Total comprehensive income	-	205	205
At 31 December 2020	28,000	98,637	126,637

The total comprehensive income of the company for each of the two years ended 31 December 2020 is its profit for these financial years.

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Consolidated cash flow statement

For the year ended 31 December 2020

	Notes	2020 £000s	2019 £000s
Net cash inflow from operating activities	21	69,387	35,645
Cash flows from investing activities			
Disposal of tangible fixed assets		3	6
Proceeds from sale of joint ventures		-	250
Proceeds from sale of properties with equity loans	22	111	111
Purchase of tangible fixed assets		(618)	(2,092)
Loans paid to joint ventures		(324)	(2,650)
Loans repaid by joint ventures		-	65
Dividends received from joint ventures and associates		-	831
Net cash outflow from investing activities		(917)	(3,479)
Cash flows from financing activities			
Equity dividends paid		-	(4,200)
Net cash outflow from financing		-	(4,200)
Net increase in cash and cash equivalents		68,470	27,966
Cash and cash equivalents at beginning of year		131,319	103,353
Cash and cash equivalents		199,789	131,319

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

Notes to the accounts

1. Accounting policies

The principal accounting policies, which have all been applied consistently throughout the year and the preceding year, are set out below.

i) General information and basis of accounting

Wates Construction Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act and registered in England and Wales. The address of the registered office is given on page 2. The nature of the Group's operations and its principal activities are set out in the Strategic report.

These accounts have been prepared under the historical cost convention in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Wates Construction Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

Wates Construction Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate accounts, which are presented alongside the consolidated accounts. Exemptions have been taken in relation to financial instruments, intra-group transactions and remuneration of key management personnel.

In accordance with Section 408 of the Companies Act 2006, no separate profit and loss account has been presented for the Company. However the profits for the year and the prior year have been disclosed with the Company balance sheet.

ii) Basis of consolidation

The consolidated accounts include the accounts of Wates Construction Limited and its subsidiary undertakings up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for periods from or to the date on which control passed.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to accounts of subsidiaries to bring the accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation. In accordance with Section 35 of FRS 102, Section 19 of FRS 102 has not been applied in these accounts in respect of business combinations effected prior to the transition to FRS 102 on 1 January 2014.

iii) Going concern

The activities of the Wates Group, along with the factors that may affect its future performance and position are set out in the Directors' report.

As at 31 December 2020, the company had cash, no debt, access to £50m of Wates Group debt under the Coronavirus Large Business Interruption Loan Scheme (CLBILS), access to £120m of undrawn secured bank facilities (through the Wates Group Limited facility) and a strong forward secured order book. The directors regularly review the working capital requirements of the company and the Wates Group while reviewing sensitivities to future performance.

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

1. Accounting policies continued

As part of the Wates Group's ongoing response to the COVID-19 pandemic, the directors have reviewed the forecast future performance based on their current expectation. This expectation continues to reflect the current level of activity across the Wates Group using management's understanding of each sector that the Wates Group operates in. Turnover levels are forecast to improve throughout the second half of 2021, however, are not forecast to return to pre COVID-19 levels in 2021. Within these forecasts, a significant proportion of the Wates Group's revenue is already secured.

Due to the potential volatility at the subsidiary level, Wates Group Limited intends to provide sufficient operational and financial support to the subsidiaries, to the extent that it is required to enable them to meet their liabilities as and when they fall due for a period of at least 12 months from the date of approval of the financial statements for the subsidiaries for the year ended 31 December 2020. The Wates Group has prepared a cash flow forecast for 12 months from the date of approval of these financial statements and the Wates Group considers it has sufficient cash reserves to continue trading, whilst meeting the financial covenants set within its Revolving Credit and CLBILS facilities. The Wates Group is not forecasting a need to draw down on its £120m Revolving Credit Facility in the next 12 months.

The Wates Group recognises the economic and trading uncertainties resulting from COVID-19 and has deemed it appropriate to consider a range of potential scenarios of escalating impact and duration. Some reasonable downside scenarios include: a significant contract loss; a reduction in contracting turnover similar with those seen in 2020; an increase in costs without any client recovery; and reductions in prices for both housing and land sales. The Wates Group does not consider a prolonged shut down of construction activities as a likely scenario as construction related activities have continued throughout all national lockdowns experienced to date. The Wates Group's cash has continued to remain resilient even after November when the second lockdown was announced and it has not utilised any of its Revolving Credit Facility throughout this period. Whilst the cash flow impacts of these scenarios are materially different to the current forecast, the Wates Group forecasts and reasonable worst-case scenarios indicate that it would be able to continue trading for at least 12 months from the date of approval of the financial statements. Even if these scenarios were compounded the Wates Group would not need to draw its Revolving Credit Facility.

After making enquiries and considering the factors and sensitivities outlined above for a range of scenarios, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

iv) Turnover

Turnover represents the value of work done on contracting activities, which is recognised on a percentage of completion basis with reference to costs incurred to date as a proportion of total costs, rendering of services which is recognised as the service is performed, sales of residential properties and development properties that are legally completed within the year.

Turnover excludes the value of intra-group transactions and Value Added Tax. The Group's share of turnover of joint ventures and associates is disclosed separately in the consolidated profit and loss account.

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

1. Accounting policies continued

v) Pre-contract costs

Tender costs on construction contracts are written off to the profit and loss account up until the point it is probable that the Group will be awarded the contract. For certain large multi-year frameworks, pre-contract costs are capitalised where it is sufficiently probable that the contract will be obtained.

vi) Exceptional items

Section 5 of FRS 102 requires material items to be separately disclosed in a way that enables the users of the accounts to understand the entity's financial performance. These items are commonly referred to as 'exceptional' items. In order to provide users with a clear and consistent presentation of the underlying financial performance of the Group, it has separately identified items that are considered to be exceptional because of their size or non-recurring nature.

vii) Government grants

Government grants are recognised once there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grant will be received. During the year the Group received Coronavirus Job Retention Scheme income which was accounted for under the performance model. Amounts received are disclosed within Other operating income in the Consolidated profit and loss account.

viii) Research and development

Research and development costs are written off as incurred.

ix) Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life of 20 years. The useful life of goodwill is based on the long-term nature of the contracts and history of the subsidiary undertakings and businesses acquired. Provision is made for any impairment.

x) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on the following tangible fixed assets in equal annual installments over the estimated useful lives of assets so as to write off the cost less the estimated residual values over the following periods:

Leasehold improvements	period of lease
Plant and equipment	2 to 10 years

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

1. Accounting policies continued

xi) Financial instruments

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(a) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price.

Non-current debt instruments, which meet the conditions set out in paragraph 11.9 of FRS 102, are subsequently measured at amortised cost using the effective interest method.

Debt instruments that have no stated interest rate and are classified as payable or receivable within one year and which meet the above conditions are initially measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

(b) Investments

Equity loans and unquoted investments are stated at cost less impairment.

(c) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

xii) Joint ventures and associates

A joint venture is a jointly controlled entity in which the Group holds a long-term interest with one or more other parties where a contractual arrangement has established joint control over the entity. An associate is an undertaking in which the Group has a long-term interest, usually from 20 per cent to 50 per cent of the equity voting rights and over which it exercises significant influence.

In Group accounts, investments in joint ventures and associates are accounted for using the equity method. Investments in joint ventures and associates are initially recognised at the transaction price (including transaction costs), including advances, and are subsequently adjusted to reflect the Group's share of the profit or loss and other comprehensive income of the joint venture or associate. Goodwill arising on the acquisition of joint ventures or associates is accounted for in accordance with the policy set out above. Any unamortised balance of goodwill is included in the carrying value of the investment in joint ventures or associates.

Where the Group trades with a joint venture or associate, the proportion of turnover and profit in respect of the proportion of the joint venture or associate owned by the Group is eliminated on consolidation. Such turnover and profit is taken when the assets purchased by the joint venture are sold by it.

In the Company's accounts, investments, including those in joint ventures and associates, are accounted for at cost less impairment.

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

1. Accounting policies continued

xiii) Stocks

Stocks are stated at the lower of cost, including attributable overheads, and estimated selling price less costs to sell, which is equivalent to net realisable value.

xiv) Impairment of assets

Assets, other those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the profit and loss account immediately.

Non financial assets

An asset is impaired where there is objective evidence that, as a result one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash-generating units of which the goodwill is a part.

Where indicators exist for a decrease in impairment loss on assets other than goodwill, the prior impairment loss is tested to determine reversal. An impairment is reversed to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the estimated value of the future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

xv) Contracts

The principal estimation technique used by the Group in attributing profit on contracts to a particular accounting period is the preparation of forecasts on a contract-by-contract basis. These focus on costs to completion and enable an assessment to be made of the final outturn on each contract. Consistent contract review procedures are in place in respect of contract forecasting.

Profit on contracts is only recognised when the Group is satisfied that the risks on a contract have been mitigated to a suitable level so that the forecast profit can be measured reliably. As a number of risks are not mitigated until a contract has been successfully delivered and final accounts are agreed, an element of profit is not recognised on contracts until the contract is nearing completion. Provision is made for all losses incurred to the accounting date together with any further losses that are foreseen in bringing contracts to completion.

As certain agreements can run over a considerable number of years and cover a number of individual separable projects, the agreement is treated as a number of individual projects. Each individual project then follows the group accounting policies for the type of activity being delivered.

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

1. Accounting policies continued

xv) Contracts continued

Variations and claims are recognised once there is sufficient certainty over the probability that they will be received and the amount to be received can be measured reliably.

For contracts that are delivered as a service and when the services performed are an indeterminate number of acts over a specified period of time (for example for services such as responsive maintenance and facilities management), revenue is recognised on a straight line basis. For responsive maintenance contracts where the contract can be split in to individual separable projects (and revenue can be directly attributed to that project), each project is accounted for on a percentage completion basis.

Amounts recoverable on contracts which are included in debtors are stated at cost, plus attributable profit, to the extent that this is reasonably certain after making provision for contingencies, less any losses incurred or foreseen in bringing contracts to completion, and less amounts received as progress payments. Costs for this purpose include valuation of all work done by subcontractors, whether certified or not, and all overheads other than those relating to the general administration of the relevant companies. For any contracts where receipts exceed the book value of work done, the excess is included in creditors as payments on account.

xvi) Residential developments

For residential development, profits are recognised on a site-by-site basis by reference to the expected outturn result for each site. Profit is recognised on the basis of actual property sales to date compared to forecast final sales and the total actual and forecast costs for each development site.

xvii) Taxation

Current tax is provided at the amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the accounts that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the accounts.

Where the amount attributed for tax purposes to assets (other than goodwill) and liabilities that are acquired in a business combination differs from their fair value, deferred tax is recognised to reflect the future tax consequences with a corresponding adjustment to goodwill.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax expense or income is recognised in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense.

Current and deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends to settle on a net basis.

Research and development credits receivable are included in operating profit and are taxed within current tax. Current tax is then paid net of research and development credits receivable.

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

1. Accounting policies continued

xviii) Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

xix) Retirement benefits

The Company participates in the Wates Pension Fund, a defined benefit scheme operated by a fellow subsidiary, Wates Group Services Limited. Sufficient information is not available for the Company to use defined benefit accounting and so the Company accounts for the scheme as a defined contribution plan. Information about the scheme is disclosed in the accounts of the ultimate parent company and Wates Group Services Limited.

With effect from 1 January 2001, the scheme has been closed to new members. Pension costs paid by the Company are disclosed in note 4.

In the ordinary course of business, the Group sometimes transfers employees (TUPE) and takes on obligations relating to local government pension schemes. The largest scheme in which a subsidiary of the group participates, in respect of certain employees, in the West Midlands Pension Fund, a defined benefit scheme administered by the City of Wolverhampton Council for employees of approximately 600 active employers. This scheme is part of the Local Government Pension Scheme. Sufficient information is not available for the Group to use defined benefit accounting and so the Group accounts for this scheme as a defined contribution plan. Information about the scheme is disclosed in the accounts of the City of Wolverhampton Council on www.wolverhampton.gov.uk and in the accounts of the scheme available on www.wmpfonline.com.

The Group also operates defined contribution schemes. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

xx) Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets are translated at the rates of exchange at the balance sheet date. Exchange differences arising on the translation of opening net assets and on the results of overseas operations are reported in other comprehensive income and accumulated in equity.

Other exchange differences are recognised in the profit and loss account in the period in which they arise.

xxi) Dividends

Dividends to the company's shareholders are recognised when dividends are approved for payment.

Wates Construction Limited Annual Accounts and Reports 2020

As at 31 December 2020

1. Accounting policies continued

xxii) Significant areas of judgement and uncertainty

The estimates and associated assumptions used in the preparation of the accounts are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of revision and future periods if the revision affects both current and future periods.

The most critical accounting policies and significant areas of judgement and estimation arise from the accounting for contracts and assessments of the carrying value of residential land and development (see note 12).

Contract accounting requires estimates to be made for contract costs and income. In many cases, these contractual obligations span more than one financial period. Also the costs and income may be affected by a number of uncertainties that depend on the outcome of future events and may need to be revised as events unfold and uncertainties are resolved.

Management bases its judgements of costs and income and its assessment of the expected outcome of each contractual obligation on the latest available information, which includes detailed contract valuations and forecasts of the costs to complete. The estimates of the contract position and the profit or loss earned to date are updated regularly and significant changes are highlighted through established internal review procedures. The impact of any change in the accounting estimates is then reflected in the accounts.

The carrying value of the residential land and development assets of the Group is supported by detailed viability reviews, which are updated regularly.

The company also considers going concern as a significant area of judgement and has included specific disclosure in relation to this within note 1 (iii).

2. Group turnover

	2020 £000s	2019 £000s
Analysis by class of business:		
Construction	808,260	922,699
Residential Developments	149,956	125,345
Property Services	417,911	475,776
Group total	1,376,127	1,523,820
	2020 £000s	2019 £000s
Analysis of Group turnover:		
Construction contracts	1,155,718	1,303,073
Rendering of services	165,892	178,553
Sale of residential properties	54,517	42,194
Group total	1,376,127	1,523,820

Group turnover is materially within the United Kingdom.

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3. Exceptional items

Group operating profit/(loss) has been arrived at after recognising the following items that are considered to be exceptional because of their size or non-recurring nature:

	2020 £000s	2019 £000s
Coronavirus Job Retention Scheme grant income	6,877	-
Furlough costs	(10,899)	-
Restructuring costs	(6,254)	-
	(10,276)	-

Coronavirus Job Retention Scheme grant income is government grant income received under the Coronavirus Job Retention Scheme in respect of furloughed employees. All amounts were received in cash during the year.

Furlough costs consist of salary costs made to staff whilst on furlough who were therefore not performing any services for the Group. The cost includes salary costs paid to staff in excess of the Coronavirus Job Retention Scheme grant income. £8,949,000 of the furlough costs are recognised within cost of sales and £1,950,000 is included within administrative expenses.

Restructuring costs consist of the cost of redundancy (e.g. settlement agreements, PILONs and redundancy payments) associated with the Wates Group redundancy programme which was announced in May 2020 where 251 employees left the Group. The redundancy programme was instigated as a direct consequence of the Wates Group's response to the pandemic. £4,734,000 of the restructuring costs are recognised within cost of sales and £1,520,000 is included within administrative expenses.

4. Group operating profit/(loss)

	2020 £000s	2019 £000s
This is stated after charging/(crediting)		
Amortisation of goodwill	3,477	3,477
Auditors' remuneration*		
- audit of these accounts	149	145
Auditors' remuneration		
- audit of subsidiary accounts	140	136
Cost of stock recognised as expense	50,312	37,617
Depreciation of tangible assets		
(including loss on disposal £17,000 (2019: £7,000))	1,651	1,704
Foreign exchange gain	85	280
Hire of plant and machinery	5,168	5,295
Operating lease payments	6,604	4,556
Research and development taxation credits	(1,552)	(2,241)
Research and development	8,149	10,500

* excludes fee payments made through joint ventures

Remuneration receivable by the Company's auditors other than that shown above is disclosed in the accounts of the parent company, Wates Group Limited, which is required to prepare consolidated accounts.

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5. Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	2020 Number	2019 Number
Operations	2,463	2,557
Administration	881	898
	3,344	3,455
The aggregate payroll costs for the Group were as follows:	2020 £000s	2019 £000s
Wages and salaries	177,618	200,176
Social security costs	21,059	23,420
Other pension costs	26,512	25,373
	225,189	248,969

The Group pension operating cost for the year was £9,619,000 (2019: £8,116,000) in respect of defined benefit arrangements (see page 39) and £16,893,000 (2019: £17,257,000) in respect of defined contribution arrangements.

6. Remuneration of directors

	2020 £000s	2019 £000s
Directors' emoluments	1,664	2,215
Amounts receivable under long-term incentive scheme *	-	1,626
Contributions to money purchase scheme	18	54
	1,682	3,895

The above emoluments exclude payments made to two directors of the ultimate parent company, which are shown in that company's accounts.

Four (2019: four) directors have retirement benefits accruing under defined contribution schemes.

	2020 £000s	2019 £000s
Highest paid director		
- emoluments	386	433
- amounts receivable under long-term incentive scheme *	-	418
- contributions to money purchase scheme	-	10

*The 2019 figures for amounts receivable under long-term incentive schemes represent the cash payments made to directors in relation to the performance of the Group in the periods to 31 December 2019. The long-term incentive scheme has a deferred element which would normally result in payments being made to directors in March on an annual basis, even when no entitlement is earned in respect of the current financial year. The deferred payments that would ordinarily have been made in March 2021 have been deferred further and payments in the future remain subject to the financial performance of the Group in 2021 and beyond. The earliest such a payment could be made is September 2021. The value of the payments to directors that have been deferred from March 2021 is £540,000, of which £122,000 is payable to the highest paid director. No amounts are receivable by directors in respect of the performance of the Group in 2020.

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7. Net interest receivable

	2020 £000s	2019 £000s
Interest payable and similar charges:		
Other interest	(85)	-
	2020 £000s	2019 £000s
Interest receivable:		
Group undertakings	3,194	2,593
Bank	44	162
Other	376	205
Interest receivable	3,614	2,960

Other interest receivable includes amounts from Joint ventures of £352,000 (2019: £192,000) which is also included within interest payable by joint ventures disclosed on the face of the Consolidated profit and loss account.

8. Tax on profit on ordinary activities

a) Analysis of the (credit)/charge in the year

	2020 £000s	2019 £000s
Current tax		
UK corporation tax on the profit for the year	(320)	2,877
Adjustments in respect of previous years	325	154
Total current tax	5	3,031
Deferred tax		
Origination and reversal of timing differences	28	135
Increase in tax rate	(516)	-
Adjustments in respect of previous years	(26)	48
Total deferred tax	(514)	183
Total tax on (loss)/profit	(509)	3,214

During the year beginning 1 January 2021, the net reversal of deferred tax assets is not expected to increase the corporation tax charge for the year significantly as the net reversal will be offset by lower current tax in respect of timing differences. There is no expiry date on timing differences.

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8. Tax on profit on ordinary activities continued

b) Factors affecting the total current tax (credit)/charge for the year

The total tax charge for the year is higher (2019: lower) than the standard rate of corporation tax in the UK of 19%. The differences are explained below:

	2020 £000s	2019 £000s
(Loss)/profit before taxation	(2,916)	18,383
Add/(less) share of loss/(profit) after tax of joint ventures and associates taxed as separate entities	43	(46)
Group (loss)/profit before tax	(2,873)	18,337
Group (loss)/profit at standard rate of corporation tax in the UK of 19% (2019: 19%)	(546)	3,484
Effects of:		
Permanent disallowable costs	400	496
Group relief	(23)	(677)
Increase in tax rate / timing differences	(639)	(291)
Adjustments in respect of previous years	299	202
Group total tax (credit)/charge for the year	(509)	3,214

9. Intangible assets – goodwill

Group	£000s
Cost 1 January 2020 and 31 December 2020	69,550
Amortisation:	
At 1 January 2020	21,014
Provided during the year	3,477
At 31 December 2020	24,491
Net book amounts:	
At 31 December 2020	45,059
At 31 December 2019	48,536

The net book value of goodwill at 31 December 2020 includes amounts and remaining amortisation periods regarding the following acquisitions:

Acquisition	Remaining amortisation period	Net book value of goodwill
Wates Property Services Limited	10.4 years	£14,119,000
Purchase Group	13.9 years	£5,787,000
Parts of the Shepherd Group	14.8 years	£25,153,000

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10. Tangible fixed assets

Group	Leasehold improvements £000s	Plant and Equipment £000s	Assets in the course of construction £000s	Group total £000s
Valuation or cost:				
At 1 January 2020	1,834	14,828	407	17,069
Additions	96	350	172	618
Disposals	-	(4,880)	-	(4,880)
At 31 December 2020	1,930	10,298	579	12,807
Depreciation:				
At 1 January 2020	813	11,478	-	12,291
Provided during the year	348	1,286	-	1,634
Disposals	-	(4,860)	-	(4,860)
At 31 December 2020	1,161	7,904	-	9,065
Net book amounts:				
At 31 December 2020	769	2,394	579	3,742
At 31 December 2019	1,021	3,350	407	4,778

Company	Plant and equipment £000s	Assets in the course of construction £000s	Company total £000s
Cost:			
At 1 January 2020	3,335	407	3,742
Additions	28	173	201
At 31 December 2020	3,363	580	3,943
Depreciation:			
At 1 January 2020	2,717	-	2,717
Provided during the year	208	-	208
At 31 December 2020	2,925	-	2,925
Net book amounts:			
At 31 December 2020	438	580	1,018
At 31 December 2019	618	407	1,025

At the balance sheet date the Group had committed to incur capital expenditure of £nil (2019: £172,000).

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11. Joint ventures and other investments

Group	Joint ventures £000s	Associates £000s	Total Joint ventures and associates £000s	Equity loans £000s	Total other investments £000s
At 1 January 2020	4,364	291	4,655	381	381
Additions	324	-	324	-	-
Repayments	-	-	-	(22)	(22)
Share of (loss)/profit	(196)	(43)	(239)	3	3
At 31 December 2020	4,492	248	4,740	362	362

The investment in joint ventures includes loans amounting to £4,163,000 (2019: £4,021,000). Repayments includes dividends received from joint ventures and associates of £nil (2019: £831,000).

Joint ventures

The Group holds the following interests in the ordinary share capital of the following companies:

	Interest	Registered Office
Annington Wates (Cove) Limited	50.0%	Wates House, Station Approach, Leatherhead, Surrey KT22 7SW
HWR Nominee Ltd	50.0%	Wates House, Station Approach, Leatherhead, Surrey KT22 7SW

The Group holds the following interests in limited liability partnerships:

	Interest	Registered office
Havering and Wates Regeneration LLP	50.0% (Wates House, Station Approach, Leatherhead, Surrey KT22 7SW
HWR Phase 1 Stage 1 LLP	50.0% (Leatherhead, Surrey KT22 7SW
Signature Wates Residential LLP	50.0%	
Laurus Living Space LLP	50.0%	Sale Point, 126-150 Washway Road, Sale, Manchester M33 6AG

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11. Joint ventures and other investments continued

Associates

The Group holds the following interests in the ordinary share capital of the following companies:

	Interest	Registered office
Countrywise Repairs Limited	49.0%	Monson House, Monson Way, Tunbridge Wells, Kent TN11 1LQ
QSH Propco Limited	15.0%	1934 the Yard, Exploration Drive, Leicester LE4 5JD
Quality Social Housing Management Limited	15.0%	

The Group holds the following interest in a limited liability partnership:

	Interest	Registered office
QSH Property LLP	7.5%	2 Merus Court, Meridian Business Park, Leicester LE19 1RJ

Equity loans

These comprise amounts advanced to homebuyers to assist in their purchase of the Group's residential properties under equity share schemes. The loans, with a cost of £362,000 (2019: £381,000), are repayable together with a share in the capital appreciation when the underlying property is sold. Included in this total are interest free loans with a cost of £93,000 (2019: £94,000) which are repayable if the properties are not sold by 2021. The loans are secured by a charge over the property. Loans with a cost of £269,000 (2019: £287,000) were interest free until 2016 when a fee of 1.75 percent per annum is receivable, rising annually by the Retail Price Index plus one percent.

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11. Joint ventures and other investments continued

Company	Shares in Group undertakings £000s	Interests in joint ventures £000s	Total £000s
As at 1 January 2020	78,294	4,250	82,544
Additions	-	432	432
As at 31 December 2020	78,294	4,682	82,976

During 2019 the Directors of the company approved the recapitalisation of a subsidiary company to the value of £6m. This was achieved by way of cancellation of intercompany debt owed by the subsidiary company.

The cost of shares in Group undertakings is £78,294,000 (2019: £78,294,000).

The investment in joint ventures includes loans amounting to £4,682,000 (2019: £4,250,000).

For the year ending 31 December 2020 the following subsidiary companies were entitled to exemption from audit of individual company accounts under Section 479A of the Companies Act 2006:

Purchase Group Limited (company number 05322443)
Wates Construction Services Limited (company number 04341437)
Wates Group Properties Limited (company number 01852973)
Wates Maintenance Services Limited (company number 0316928)
Wates Regeneration (Coventry) Limited (company number 04897433)
Woodside Lands Limited (company number 00956245)

The Group's subsidiary undertakings are set out on pages 54 to 55.

12. Stocks

	Group 2020 £000s	Group 2019 £000s	Company 2020 £000s	Company 2019 £000s
Raw materials and consumables	92	207	-	-
Residential land and work in progress under development	21,246	29,505	21,246	29,505
	21,338	29,712	21,246	29,505

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13. Debtors

	Group 2020 £000s	Group 2019 £000s	Company 2020 £000s	Company 2019 £000s
Amounts falling due within one year				
Trade debtors	70,847	86,799	50,133	63,076
Amounts recoverable on contracts	141,206	171,753	96,777	107,971
Amounts owed by group undertakings	92,237	137,464	92,017	137,297
Amounts owed by subsidiary undertakings	-	-	15,343	18,598
Amounts owed by joint ventures and associates	-	439	-	439
Corporation tax	3,215	2,863	2,733	3,074
Deferred taxation (note 18)	1,249	1,452	445	344
Other debtors	5,331	5,489	4,930	5,211
Prepayments and accrued income	8,496	9,087	2,529	3,652
	322,581	415,346	264,907	339,662
Amounts falling due after more than one year				
Amounts recoverable on contracts	21,961	31,999	19,145	27,765
Deferred taxation (note 18)	3,699	2,982	-	-
	25,660	34,981	19,145	27,765
	348,241	450,327	284,052	367,427

14. Cash and cash equivalents

	Group 2020 £000s	Group 2019 £000s	Company 2020 £000s	Company 2019 £000s
Restricted cash	4,327	4,870	4,327	4,870
Cash at bank	195,462	126,449	168,358	100,604
	199,789	131,319	172,685	105,474

Restricted cash represents money held in a proceeds account from property sales for a development site. The lower of 90% of the sales proceeds received and the full construction costs incurred to date are released from the account on receipt of a signed certificate from the site partner. The remaining balance will be distributed in full between the partners, in accordance with the profit share agreement, six months after the final unit sale on the site.

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15. Creditors: amounts falling due within one year

	Group 2020 £000s	Group 2019 £000s	Company 2020 £000s	Company 2019 £000s
Advance payments on account of contracts	152,774	135,518	147,921	134,581
Trade creditors	69,373	96,094	41,480	57,324
Amounts owed to subsidiaries	-	-	6,769	4,801
Amounts owed to group undertakings	12,451	22,325	12,433	22,324
Other taxes and social security	8,849	13,909	5,198	11,951
Other creditors	3,539	2,804	2,399	2,075
Accruals	220,459	248,991	187,187	200,589
Deferred income	2,559	845	-	-
	470,004	520,486	403,387	433,645

Other taxes and social security includes £904,000 (2019: £nil) due under the Government's VAT Deferral New Payment Scheme.

16. Creditors: amounts falling due after more than one year

	Group 2020 £000s	Group 2019 £000s	Company 2020 £000s	Company 2019 £000s
Other taxes and social security	339	-	-	-
Accruals	14,950	18,015	13,316	16,977
Deferred income	2,652	3,306	-	-
	17,941	21,321	13,316	16,977

Other taxes and social security includes £339,000 (2019: £nil) due under the Government's VAT Deferral New Payment Scheme.

17. Provisions for liabilities

	Group 2020 £000s	Group 2019 £000s	Company 2020 £000s	Company 2019 £000s
At 1 January	8,921	8,779	8,921	8,779
Utilised during the year	-	(100)	-	(100)
Charged to profit and loss account	9,716	242	9,716	242
At 31 December	18,637	8,921	18,637	8,921

All provisions are construction activity related and are the Group's and company's estimates of the amounts which are expected to be paid. These construction amounts reflect the expected future loss which is considered after making an allowance for insurance policy excess, if the Group and company has received reasonable satisfaction of policy coverage from insurers that costs are recoverable for certain works and where the process is at an advanced stage. The obligation is likely to crystallise more than one year after the balance sheet date.

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18. Deferred taxation asset

	Group 2020 £000s	Company 2020 £000s
At 1 January	4,434	344
Credited to profit and loss account	514	101
At 31 December	4,948	445

The Finance Act 2016 reduced the corporation tax rate to 17% with effect from 1 April 2020 and so this rate was used in the December 2019 deferred tax calculations. In the Budget of 11 March 2020, the Chancellor of the Exchequer announced that the planned rate reduction to 17% would no longer be taking effect. The changes announced during the Budget of 11 March 2020 were substantively enacted as at the 2020 balance sheet date, therefore, all opening deferred taxation balances have been remeasured at 19% with an adjustment recognised in the 2020 total tax charge. On 3 March the Chancellor of the Exchequer announced various amendments to the Government's VAT deferral scheme and rises in UK Corporation Tax. When enacted these will impact the tax assets and liabilities of the Group.

Deferred tax is provided as follows:

	Group 2020 £000s	Group 2019 £000s
Depreciation in excess of capital allowances	715	789
Other timing differences	4,233	3,645
Deferred taxation	4,948	4,434

	2020 £000s	2019 £000s
Deferred taxation asset under one year	1,249	1,452
Deferred taxation asset over one year	3,699	2,982
	4,948	4,434

	Company 2020 £000s	Company 2019 £000s
Depreciation in excess of capital allowances	208	335
Short-term timing differences	237	9
Deferred taxation asset under one year	445	344

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19. Financial instruments

The carrying values of the Group's financial assets and liabilities, other than those measured at the undiscounted amount receivable or payable, are summarised by category below:

Group	2020 £000s	2019 £000s
Financial assets		
Debt instruments measured at amortised cost		
• Loans receivable from joint ventures	4,163	4,460
Equity instruments measured at cost less impairment		
• Equity loans (note 11)	362	381
Interest income		
Total interest income for financial assets at amortised cost	352	192

20. Called up share capital and reserves

Group and Company	2020 £000s	2019 £000s
Issued and fully paid: 28,000,000 Ordinary shares of £1 each	28,000	28,000

The company has one class of ordinary shares which carry no right to fixed income.

The profit and loss reserve represents cumulative profits or losses, net of dividends paid.

21. Reconciliation of Group operating profit to cash generated by operations

	2020 £000s	2019 £000s
Group operating (loss)/profit including joint ventures and associates	(6,445)	15,423
Profit on sale of investment in joint venture	-	(572)
Profit on sale of properties with equity loans	(3)	(26)
Depreciation and amortisation	5,128	5,181
Joint ventures and associates	239	253
Decrease/(increase) in stocks	8,374	(11,003)
Decrease/(increase) in debtors	102,584	(50,537)
(Decrease)/increase in creditors	(54,867)	75,404
Increase in provisions	9,716	142
Cash from generated from operations	64,726	34,265
Interest received	3,613	2,960
Interest paid	(68)	-
Corporation tax received/(paid)	1,116	(1,580)
Net cash inflow from operating activities	69,387	35,645

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22. Operating lease commitments

	2020 £000s	2019 £000s
Group total future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	5,091	3,997
Between one and five years	6,082	5,198
	11,173	9,195

23. Contingencies

There are claims arising in the normal course of trading that are in the process of negotiation. In some cases these negotiations may be protracted over several years. Provision has been made for all material amounts which the directors consider will become payable on account of claims. There are contingent liabilities in respect of guarantees under buildings and other agreements entered into in the normal course of business.

24. Related party transactions

Turnover in respect of the value of contracting work done for and land sold to joint ventures in the year ended 31 December 2020 was £4,617,000 (2019: £2,305,000).

Amounts were due to the Group from joint ventures and associates at 31 December 2020 of £4,163,000 (2019: £4,460,000). Interest at market rates is receivable in respect of loans, which are unsecured, due from joint ventures.

25. Ultimate parent company

The Company's ultimate parent company is Wates Group Limited (controlling party), which is incorporated in Great Britain and registered in England and Wales. No other group financial statements include the results of the Company.

The consolidated financial statements for Wates Group Limited are available to the public and may be obtained from Wates House, Station Approach, Leatherhead, Surrey, KT22 7SW.

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Subsidiary Undertakings

At 31 December 2020

Except where otherwise stated:

- All subsidiary undertakings are incorporated in the United Kingdom and registered in England and Wales;
- The registered office of all subsidiary undertakings is Wates House, Station Approach, Leatherhead, Surrey KT22 7SW;
- The Wates Construction Limited interest is 100% in the issued share capital of the subsidiary undertakings listed below included in the consolidated accounts.

Wates Construction International LLC (incorporated in Abu Dhabi; ownership interest 49%; registered office - Sultan International Holdings, 20th Floor, Sheikh Sultan Bin Hamdan Building, Corniche PO Box 3486, Abu Dhabi, United Arab Emirates)

Wates Construction Services Limited *

Wates Financial Services Limited *

Wates Group Properties Limited *

Wates Homes (Cambridge) Limited

Wates Homes Limited

Wates Interiors Limited *

Wates Property Services Limited *

Wates Maintenance Services Limited *

Wates PFI Investments (Projects) Limited *

Wates PFI Investments (QED) Limited *

Wates PFI Investments Limited *

Wates Regeneration (Coventry) Limited

Wates Regeneration (South Acton) Limited

Wates Regeneration (Tavy Bridge) Limited

Wates Smartspace Limited

G Purchase Construction Limited

GW 217 Limited

Purchase Group Limited

Purchase Home Improvements Limited

Purchase Homes Limited

Purchase Support Limited

Relocation and Inventory Services Limited *

SES (Engineering Services) Limited *

Third Wates Investments Limited *

Woodside Lands Limited

*Owned directly by Wates Construction Limited

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The consolidated income and expenditure, assets and liabilities and cash flows of the subsidiary undertakings of the Group include the Group's shares of the following unincorporated jointly controlled assets:

	Interest	Address
American Community School Expansion	24.5%	Eastern International LLC, Bel City Gate Tower, 11 th Floor, Al Wahda Street, PO Box 1596, Sharjah, United Arab Emirates
American Community School Landscaping	24.5%	
CFB Building	24.5%	
Qasr Al Hosn Fort	24.5%	
Qasr Al Hosn Fort and NCCC Main Contract Works	24.5%	