



CORPORATE GOVERNANCE REPORT (WATES PRINCIPLES) 2019



For the year ended 31 December 2019, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the [Wates Corporate Governance Principles for Large Private Companies](#) (published by the Financial Reporting Council ('FRC') in December 2018 and available on the [FRC website](#)).

These new corporate governance reporting requirements apply to company reporting for financial years starting on or after 1 January 2019 and Companies are able to adopt the Wates principles as an appropriate framework when making a disclosure regarding corporate governance arrangements. We have adopted the disclosure in our [2019 Report and Accounts](#) and set out below is how we have applied the Principles over the past year throughout our work.

The 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 focus of the Board and Executive Committee has been the implementation of the Group's Guiding Framework "Creating Tomorrow Together" which defines our purpose, goals and behaviours.



The new framework has been communicated to the workforce through our annual leadership conference, roadshows and through a series of workshops where employees have been encouraged to contribute ideas as to how the Group can practically deliver the goals and behaviours defined within the framework.

To drive the Group towards achieving its goals of becoming more “progressive” and “trusted”, a new [Diversity and Inclusion Plan](#), alongside the recruitment of a new Group Head of Diversity & Inclusion, has been introduced in 2019. The Group is committed to having a workforce that more accurately reflects society and has developed challenging targets to achieve this by 2025:

- 40.0% Female (2019: 21.1%)
- 20.0% BAME (2019: 12.3%)
- 3.0% Disability (2019: 0.8%)
- 5.0% LGBTQ+ (2019: 1.6%)

Further targets include 50% of early career intakes being female and 5% of new recruits being career returners. The plan commits to overhauling our parental leave and flexible working policies, improving the gender pay gap and collaborating across the sector to help drive sector-wide change.

As part of the Group's drive to become more “sustainable”, the Group has set targets as part of its [Environmental Strategy and Engagement Campaign](#):

- Waste Target: Zero waste from Wates operations by 2025
- Energy Target: Zero carbon from all Wates operations and operational vehicles by 2025
- Nature Target: Making a positive impact on nature through our operations by 2025

The Group is well advanced in developing action plans and engaging with our workforce. The next steps will be to provide the necessary training to be able to deliver these targets, as well as engaging with our wider stakeholders.

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 Group are effectively maintained, as well as a Chief Financial Officer, Group MD Construction Group, three Independent Non-Executives and five family members (including the Chairman). This size and composition is appropriate to our 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 Group operates.

In November 2019 Susan Harris decided to join the Board as an Independent Non-Executive Director and Chair of the Audit Committee. Susan has extensive Non-Executive experience at Cooperative Bank, Schroders and Co, Bank of Ireland UK, FNZ (UK), Abcam Plc, Barclays UK Retirement Fund and Mencap. She is currently chairing the Audit and Assurance council of the Financial Reporting Council (FRC).

We 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 this year. The Board is committed to developing a more diverse workforce, including at the most senior levels.

The Board has initiated a formal effectiveness review in 2019, facilitated by an independent external advisor. The Board Effectiveness 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.

A biography for each Board Director can be found on the Group's website: www.wates.co.uk/who-we-are/ and pages 49 to 51 of the Annual Accounts and Reports 2019.

Principle 3 – Director Responsibilities

The Board has a programme of nine principal meetings every year, plus two additional days for strategic planning. As part of every Group Board meeting, the governance of the Group is included as a standing agenda item. The Board's key areas of focus in 2019 are in the Section 172 Companies Act 2006 report on pages 58 to 62 of the Annual Accounts and Reports.

The Board receives regular and timely information (at least monthly) 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).

As part of the 2018 annual strategy process, the Board identified a list of strategic priorities that were to be reviewed by management throughout 2019. The output of this work has been a key area of focus for the Board. Some specific outputs have included the rebranding of Wates Living Space to Wates Property Services, which now incorporates our Facilities Management offering under the brand Wates FM, a cost rationalisation project across the Group's operations, as well as a review of the Group's organisational structure and investment profile.

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. A review was performed in the year and decided that it was an appropriate time to perform a tender for the Group's audit services. The tender process involved several external audit firms (including PricewaterhouseCoopers LLP) and it was decided that the Group would change to BDO LLP. BDO's sector experience and excellent third-party audit quality ratings were an important factor in the Board's decision to change auditors.

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' below). The Board also considers all major projects (as defined by their value and risk profile) and approves them before any bids are finalised.

The Group Risk Committee (as delegated by the Board) also considers further risks as part of the day to day management of the business:

- Health & Safety (Principal risk)
- Market risk (Principal risk)
- Project delivery (Principal risk)
- Margin pressure / competition (Principal risk)
- Systems, Data, Cyber Security & GDPR (Principal risk)
- Pension fund liabilities (Principal risk)
- Appointing and retaining talent (Principal risk)
- Brexit transition (Principal risk)
- Liquidity (Principal risk)
- The Environment (Principal risk)
- Legal and regulatory compliance
- Quality
- Reacting to a decline in land and house prices
- Reputation
- Investment constraint

The Risk Committee, consisting of Executive Committee members and business unit and functional leads, ensures that inherent and emerging risks are identified and managed appropriately and in a timely manner. Its focus in 2019 was on monitoring the effectiveness of the Wates Group's approach to risk identification, classification and mitigation.

The formal introduction of the Wates Principles has highlighted a need for the Committee to focus on Opportunities as well as Risks and this has now been incorporated into the quarterly Committee meetings. Some of the opportunities that have been considered include leveraging our extensive frameworks, further investment opportunities, benefits of cost rationalisation and also the potential impact of amendments to our Diversity & Inclusion and Environmental 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 Group's strategic ambitions in a manner consistent with both its purpose and the interests of its shareholders.

An independent review was performed in 2018, which highlighted that the Group's remuneration policy for executives is consistent with companies of a similar size and complexity, as well as other companies operating within the construction sector. However, the review also highlighted that the incentive arrangements for executives could be structured in a way that more aligns with the shareholder's requirement for long term value generation. The Remuneration Committee engaged with external reward specialists throughout 2019 and a new executive incentive arrangement has been introduced that meets this requirement. The directors' remuneration is disclosed on page 83 (note 5). In 2019, management also embarked on a second phase which aims to ensure that the principles of the executive remuneration review are applied to the wider employee population.

In 2018, the Group reported its Gender Pay Reporting for the first time which highlighted some specific areas of focus for 2019 and beyond. The new Diversity and Inclusion plan includes changes that should start to show improvements in this area.

After the departure of David Barclay in September 2019, Jonathan Oatley has been appointed as the Chair of the Remuneration Committee.

Principle 6 – Stakeholders

The Board is clear that good governance and effective communication are essential on a day-to-day basis to deliver our purpose and to protect the company's brand, reputation and relationships with all our stakeholder community including shareholders, customers, employees, suppliers and the local communities in which we work.

2018 saw the introduction of the Duty to Report on Payment Practices and Performance and the Group's results for that year highlighted some areas on which the Group needed to improve in how it paid its supply chain. In 2019, the sector has focused on the number of invoices paid within 60 days as it is a requirement of The Prompt Payment Code, to which many main contractors are members, to pay at least 95% of invoices within 60 days. The Group has two entities that operate as a main contractor and report their payment performance externally. For the six-month period ending 31 December 2019, Wates Construction Limited has improved its performance from 90% to 96% and Wates Property Services Limited has remained consistent with previous periods at 94% (HI: 95%).

The Group communicates to its employees through presentations, internal group-wide emails, newsletters, social media channels and blogs on our intranet. An annual employee 'Roadshow', delivered in a number of locations around the country, provides a briefing on the Company's performance, gives an update on any initiatives that are being introduced and allows individuals to raise questions and concerns. The key focus of this year's Roadshow was the formal introduction of The Guiding Framework, announcing that the Group would be performing a review of its cost base to ensure that the Group was structured appropriately for the future and to give a summary of the work that was being performed to develop the new Diversity and Inclusion strategy.

Social media channels and the blogs on our intranet, give our employees the opportunity to interact with members of the Board and senior management. In 2019, the Board started to send summaries of key themes from the Group Board meeting via our internal social media platform. Annual employee engagement surveys are performed to highlight areas of improvement in communication of the Group's purpose. The Board considers the results of all employee engagement surveys a good barometer of the workforce's confidence in the Group's strategic direction, optimism in the future and career opportunities.

The Wates Group is certified to Gold standard by Investors in People – an important external validation of the company's policies and performance in leading, supporting and managing employees well for sustainable results.

The Group performs customer engagement surveys which determine the Net Promoter Score (NPS) of the Group – this process is run by an external company to ensure independence. NPS performance is being reported to the Board on a monthly basis. The findings are used to improve customer engagement with knowledge being shared across all of our business.

On all large contracts, the Group hosts local community events including 'Meet the Buyer' to engage with local stakeholders. The Group has also developed environmental targets with respect to waste, energy and nature that are to be developed throughout 2020.

The company's website (www.wates.co.uk), intranet and social media channels provide extensive and up-to-date news on recent developments.