Taylor Wimpey | plc

Shareholder Questions & Answers from the 2021 AGM

Taylor Wimpey plc held its AGM on Thursday 22 April 2021 at 10:00am at the head office at Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR. In light of the safety measures in place at the time of the AGM, shareholders were unfortunately not permitted to attend the AGM in person.

Shareholders were provided with an electronic facility to follow the AGM remotely and submit questions to the Board on the business of the meeting. Shareholders were also invited to pre-submit questions in advance of the meeting by email to be received by 10:00am on 20 April 2021.

This document contains a full transcript of the questions pre-submitted by shareholders and those asked at the meeting, and the answers provided by Irene Dorner, Chairman, and Pete Redfern, Chief Executive.

Pre-submitted questions

1) Colin Eastaugh: It is disappointing to note that non-audit fees paid to TW's auditors doubled in FY20. Best practice suggests that non-audit work should be undertaken by another firm of auditors. The old chestnut, the auditor knows you best, would, if taken to its logical limit, mean that non-audit work of an accounting nature would always be undertaken by the auditor.

Irene Dorner: The standard non-audit fees incurred each year are for performing the review of the Group's interim; that is the half-year results. That work is officially classed as non-audit fees but is important in giving shareholders assurance that the Company's half-year results announcement has been subjected to an appropriate level of independent scrutiny. The cost of that review was £100,000 in each of 2020 and 2019.

The increase in non-audit fees for 2020 was due to Deloitte having performed an enhanced assurance review of the Group's cyber security. Deloitte was selected for this work, after consideration by the Audit Committee of the relative effectiveness and cost of using an alternative supplier who would not be familiar with our internal systems, in line with the Company's policy for placing non-audit work with the Auditor.

It was considered appropriate and beneficial to use the Auditor for this work as they had previously undertaken advisory work on cyber resilience, and although the cost of this work rounds up to £100,000 for disclosure in the annual report and accounts, the actual cost was closer to half of that amount.

2) Peter Lee: *Summary of question*: We have received an email from a shareholder who lived adjacent to a Taylor Wimpey development near Manchester and experienced flooding issues affecting their property.

Irene Dorner: Whilst we were not the principal contractor on the site at the time and the extent of the flooding could not reasonably have been foreseen, we are a considerate developer and therefore

I can report that we are in contact with the shareholder as we would like to agree an appropriate resolution of the matter.

Mr Lee, I would like to apologise for whatever unpleasantness you have experienced because of this and we will be actively seeking a resolution.

3) Colin Eastaugh: The average net cash for FY20 was £399m (FY19 - £157m). Per note 8, bank & other interest was £8.3m in FY20 (FY19 - £5.5m). Per the cash flow statement, interest paid in FY20 was £10.8m (FY19 - £6.4m). Why does TW pay so much in bank interest if the average cash balance is north of £100m for the last two FYs?

Pete Redfern: We always in normal circumstances would start the year with cash and end the year with cash, but that doesn't mean we have cash throughout the year and we do carry some borrowings, particularly work-in-progress spend peaks in spring and in the autumn.

That was exacerbated during 2020 because we consciously drew down our bank borrowing facilities of £550 million in the early stages of the pandemic from a risk management point of view, so that gross to net impact is much greater and therefore the interest we paid during the year was even more unusual and at a different level than usual.

4) Colin Eastaugh: Per the Directors' Report substantial interests in TW's shares total circa 15%. Are the balance of the shares held by private investors?

Pete Redfern: "Substantial interests" is a defined term by the FCA in its Disclosure and Transparency Rules and effectively is any shareholder who owns more than 3 per cent of the shares. That's what totals 15 per cent.

If you looked at UK institutional investors, that makes up 42 per cent of our shares and we also have some overseas, particularly US institutional investors. So the number of private investors is much smaller than that one statistic would imply.

5) Robin Goulton: In the future all houses or flats will require high levels of insulation and as a consequence will require low levels of heating during the winter. What levels of insulation does Taylor Wimpey plan to install in new houses and flats, and what improvements are planned for insulation levels in the future?

Pete Redfern: New build homes are significantly more energy efficient because of our overall approach to insulation and particularly the fabric of the building than second-hand homes built even 10 or 15 years' ago, let alone many decades earlier.

We remain committed to reducing carbon emissions from our new homes, and actually insulation and that fabric first approach is a key part of that.

Building regulations are changing at pace, which makes it hard to be very specific at this point about which insulation we will use, but we do expect there to continue to be ongoing improvements in the insulation that we provide within our homes and also the precision with which thermal gaps are closed within housing.

The Future Homes Standard is likely to remove natural gas from new homes, and we are actively engaged with our supply chain looking at low carbon heating solutions for the future.

6) Robin Goulton: The COVID-19 epidemic and the consequent likely increased levels of unemployment offer the possibility of training more people to work in the building industry. What are Taylor Wimpey's plans to train more people in jobs where there is skills shortage in the United Kingdom?

Pete Redfern: We have been focused on the well-known shortage of skills in the industry for some time and we have taken a proactive approach to our early talent programmes around apprentices and management trainees and our direct labour model. We directly employ just over 1,000 key trades and entry level positions make up around 14 per cent of our total workforce.

We also have a very wide range of training focused on management and leadership, and 1,500 of our employees have enrolled on or completed our academy courses. We will continue to invest in new skills. It will continue to be a battle. The strength in the industry and the strength in the housing market makes that challenge harder but that is a good problem for a business to have.

7) Robin Goulton: With high levels of unemployment, a distinct possibility as a consequence of COVID-19 and Brexit how does Taylor Wimpey plan to make flats and houses more affordable, and hence more saleable, for a potentially less well-off group of buyers?

Pete Redfern: First of all, we already build houses and apartments to suit a wide range of budgets. We have never been and do not expect to be focused on high-end London apartments as our core product or on executive housing around the country. Our focus is on a broad range of products for a broad market, first-time buyers and upwards.

We also work with local authorities and registered providers to create high quality social housing on our developments, around 20 per cent of our normal production is affordable housing and in a defined sense rather than just affordable from a price point point of view, and we continue to explore new initiatives around shared equity and other schemes both individually as a sector and with Government.

8) Robin Goulton: Pension deficits can easily balloon in size over time. Will the board on a yearly basis always keep Taylor Wimpey's pension fund in surplus sufficient in size to ignore most fluctuations in the price of shares generally on stock exchanges?

Pete Redfern: We have had a good long-term relationship with our Pension Fund through both the pandemic of the last year but also going back to the financial crisis from before. We tend to view our responsibility to the Pension Fund very highly as one of our key stakeholders and that was particularly true in the financial crisis.

I think we have over the last 10 years been able to bring the Pension Fund to a point where it is effectively in balance and it will depend on the exact accounting rules and timing as to whether it's in a surplus or a deficit at any given point in time.

Our objective is not to put it into a significant surplus. That's not very healthy for the business or actually for the Pension Scheme because funds within the Pension Scheme cannot be transferred out again, so it's not something that the Company could recover but it is also not something that the Trustees can pay out.

So we have a structure with the Trustees, which is agreed, that means we are paying even when the scheme is on the brink of a surplus, but we are actually starting to put money into an escrow fund which means that the Pension Scheme can call on that if it needs it, but the Company can access it if over time a natural surplus is created by the Fund with that strategy.

9) Robin Goulton: Near to the area where I live there are lots of flats with unsuitable and potentially dangerous cladding on the outsides of the buildings. What is Taylor Wimpey's estimate of the financial cost to Taylor Wimpey of replacing unsafe cladding on buildings that Taylor Wimpey have constructed? Why was it not recognised as a potential fire risk by Taylor Wimpey?

10) Jacqueline Davies: Are the Board aware of the true extent of the liabilities in relation to the selling of homes which breach building and fire regulations? These are more fundamental than the provision made to deal with cladding and do not appear to have been fully acknowledged on the corporate risk log provided by the audit committee in the annual report.

If the Board are aware of these wider liabilities do they believe that the executives accountable for selling homes which fail building regulations and contract law retain their confidence? Does the Board believe that executives who fail to resolve these failures for TW customers should be paid their performance based bonuses?

Questions 9 and 10 were answered together.

Pete Redfern: The total cost we believe is about £165 million to bring buildings built by Taylor Wimpey or its predecessors over the last 20 years up to what is now known as EWS1 standard.

It is important to understand, and I am picking out one terminology in one of these questions, these are not buildings that breached fire safety regulations at the point in time they were built - they are also not, in some incidences, buildings that breach fire safety regulations even if the buildings were built today – it is to bring those buildings to what is a current perspective, post-Grenfell Tower, post very detailed reviews by a number of bodies, up to a current level of saleable, mortgage-able, insurable safety.

As I touched on before, that is very unusual for any industry. I do think it is a fair question to ask why Taylor Wimpey and the industry as a whole, including the safety regulators in the industry, the quality regulators in the industry and the Government, but also ourselves, our subcontractors did not see the risks earlier.

I think hindsight is wonderful. But actually if you look at the tests that were done, if you look at the types of cladding that are now questionable, actually there was good evidence that the risks are low unless they're used in a particular set of circumstances and of course post-Grenfell we all have to look very closely at when those circumstances might arise.

So it is easy for us with hindsight to say how could we have not seen this? I do think we look at it and question ourselves. I do think we and the industry feel a moral responsibility, not just a legal responsibility, but our belief is that the actions we have taken and the costs we have set aside are enough to resolve that issue and behave not just in a way that protects the Company and its reputation but also to put our customers in the position we believe that they should be in.

11) George Pinnell: The use of leases and sub-standard cladding have shown house builders in a poor light. This apparent greed to the detriment of customers damages the long-term reputation of the industry and acts as a deterrent for potential new customers. Surely we should be focused on building the property right first time, without the cost, delay and frustration of having to return to rectify defects which could easily have been avoided? Clearly, it is more costly and detrimental to the company's image to revisit such properties to carry out such remedial work.

Although reference is made to these problems in the annual report the full extent of these problems still needs to be addressed. Moreover, there seems to be no reference as to how these problems were allowed to arise in the first place. Who is to blame? Have any head rolled or sanctions taken as necessary? If not, why not? What actions have been taken to ensure that such problems do not recur?

The response to the cladding part of this question was included in the answer to questions 9 and 10 above.

Pete Redfern: The lease issue that we have is not a recent one. The issues first arose for us in terms of actually identifying it as a significant problem back in 2016. In 2017, in a well-publicised way, the Company set up the Ground Rent Review Scheme, which actually put our customers who had doubling ground rents into a normal position of having an RPI lease which was the standard across the industry at the time.

Those leases were actually introduced some time earlier back in 2007, so they are not new issues over leases that have come up recently, these are long-term issues that we have been resolving, and we believe responsibly, for a number of years.

In 2017, the Remuneration Committee decided that it was appropriate to scale-back bonuses because of those historic lease issues, so there was an action at that point in time.

The only thing that is new at this point in time in relation to leases is that over the last 12-18 months there has been a CMA review into leaseholds, but that is going back into those older issues rather than picking up new things and, in fact, the Company has not sold homes - houses specifically – under leases since that 2017 review and we have committed prior to that review to only selling homes on ground rent leases. So actually our current practices are well in line with people's expectations; we are still dealing with historic issues.

12) George Pinnell: Can I have an assurance that new developments will be provided with the fastest broadband feasible? Or will this be the next controversy?

Pete Redfern: I don't think it will surprise anybody that ultra-fast, ultra-reliable broadband is a key requirement for the majority of our customers and has become over the course of the last five or six years an absolute requirement. I think the main question people have is, will it be fast? And also how quickly, if I move into the home in the early stages of development, will I have access to broadband?

We are actively engaged with Internet broadband providers. We aim to deliver the best available services for our customers and are looking at longer term partnerships that may enable us to accelerate that even in local areas where the immediate broadband access isn't as strong as people would like.

13) Danny Gazzi (appointed representative of Share Action): My question today relates to the voluntary Living Wage, as established by the Living Wage foundation. It is currently £10.85 in London and £9.50 throughout the rest of the UK for all those over 18. Living Wage employers ensure all directly employed staff and those working for third party contractors on behalf of the company regularly earn at least the Living Wage.

At last year's AGM, I was told the company would look into paying subcontractors the Living Wage at the appropriate time. I am conscious that the COVID-19 pandemic continues to present challenges for the business, however now more than ever it is fundamental that workers receive a wage that meets the cost of living.

I would like to ask the Board to provide shareholders with an update on Taylor Wimpey's position regarding the Living Wage and a timeline detailing the steps the company will take to make progress in this area?

Pete Redfern: We already pay the Real Living Wage to all our directly employed staff, which is the first stage of accreditation with the Living Wage Foundation. It's obviously more difficult process-wise for us to guarantee that within our contractors, but we are currently working on a plan with the Living Wage Foundation to achieve that accreditation.

We don't believe there is a big gap, so it's not that we think there are large numbers of people out there working for us as contractors who are not receiving the Living Wage, but making sure that is the case is slightly more challenging. We expect to receive that accreditation in the autumn of this year and appreciate the Living Wage Foundation's engagement and support in that process.

14) Jonathan Lahraoui (appointed representative of Share Action): We'd like to begin by congratulating Taylor Wimpey on having its SBTi targets approved in March.

I'd like to talk about the opportunities that the RE100 presents the company.

Experts are naming the 2020s the 'Climate Decade', a phrase that has emerged from the scientific consensus that we have just 10 years to drastically cut emissions or we risk climate and, subsequent, economic breakdown. But this isn't just about risk. The cost of solar power has dropped 87% since 2010, and onshore wind by 46%. Renewable electricity is a win-win for climate, and for business.

The RE100 is a voluntary initiative, joined by over 290 companies that have committed to using 100% renewable electricity across their global operations. Companies including BT, Ikea, Tesco, Carlsberg, Dalmia Cement and Swiss RE have made this commitment because rapidly falling renewable electricity costs make it the right thing to do for their businesses.

As such, I am here today to ask Taylor Wimpey to commit to signing up to the RE100, and to have a follow up meeting with ShareAction to discuss the opportunities that this offers you.

Pete Redfern: We have been purchasing green electricity since 2016 and last year we renewed our electricity contract and 100 per cent of the electricity we purchase is renewable. In our new strategy we have committed to purchase 100 per cent REGO-backed (Renewable Energy Guarantees of Origin) green electricity for all new sites.

So we do think we meet all of the fundamental requirements of the RE100. We are not however seeing that will make a big difference to our behaviour, so we are not proposing to sign up to that particular scheme at the moment, but we do believe that our approach on renewable energy is positive and in line with I think what our investors would reasonably expect.

Questions submitted during the meeting

1) Philip Clark: I was unable to access the equity raise last year because I am not a customer of Primary Bid, and the raise was completed by the time I became aware of it. Can you please NOT use Primary Bid next time you raise capital, and instead use more conventional means in order to give retail shareholders a proper opportunity to support the company, as we would like to do so.

Pete Redfern: First of all, I'm sorry that you were not able to access the Equity Raise. Our goal was to make it available to as many current investors as possible. I think PrimaryBid was adding an extra option but clearly it didn't work for everybody. I do know the timelines were short.

I think it would have been very hard for us with the uncertainty of the pandemic and the fact that we were raising capital for fairly immediate commitments on Land for us to have adopted a more standard much slower approach to Capital Raise. But we have no plans to raise capital in the future and we obviously will take into account your comments if we ever do look at raising capital again.

Irene Dorner: I would just like to echo that apology. It is unusual circumstances for us. This is not what Taylor Wimpey normally does and we were trying to find the best route forward to include as many of our investors as we could. I am sorry if it didn't suit you and we will of course learn from that experience although, as Pete says, it is not our intention to raise equity.

2) Philip Clark: How many shareholders are attending the live audiocast, and how does that compare with a normal AGM?

Pete Redfern: It's a new system for us but we believe that we have about 30 non-employee shareholders; there are obviously employees on the call as well who also own shares. That is less than usually would attend in person our meetings, although we don't necessarily have good data on how many would have attended in the past. But again, we are trying to get as close as possible to the normal AGM, albeit on a distanced basis.

Irene Dorner: I sincerely hope we can move to that at our next AGM.

3) Jacqueline Davies: The impressive words I hear today as a shareholder do not in any way reflect the experience I have had as a customer. The fire failures in my home were there at point of sale - I was sold a home in 2015 which failed building regulations pre Grenfell. You have been aware of this since 2016. EWS1 forms do not make up for design failures, contract failure or defective premises. There are 70 of us in a central London development estimated value £50m - this would sit outside of the £165m you have made - therefore you are not being accurate about the true extent of your liabilities to your Board or your investors. You have continued to promote and reward the executives responsible for this. Why?

Pete Redfern: I think I know the development that the lady has referred to and it is a development where there are issues that go beyond cladding. We acknowledge that and we are sorry that has caused challenges for those customers. That is not the norm, it is the exception and we do our best to sort out those challenges if they arise.

I think if you look at our approach on cladding specifically it stands in contrast to the industry as a whole. We have gone above and beyond. We think that is right but we expect to continue to do so.

Following our AGM, we would like to provide some further detail in response to the last detailed question set out above.

We would like to apologise to all residents of the development for the fire safety and other remediation works necessary on their buildings and assure them that the Board is aware of the matter, the extent and cost of the remediation required, and also that the Management team is taking the necessary remediation extremely seriously.

We have carried out a number of specialist investigations which have unfortunately highlighted that elements of the build were not installed by the appointed Main Contractor in line with the high standards we expect. We have shared the findings of the investigative reports we commissioned with the management company to confirm the issues and our intention remains to have these remediated as soon as possible.

The health and safety of residents is our first priority and the entire Taylor Wimpey team is committed to resolving the issues found at the development as quickly and efficiently as possible.

As noted above, the Board has been kept appropriately apprised of the matter, we have full confidence in the Management team and we do not consider this matter to be such that it requires any adjustment to the application of our current shareholder-approved Remuneration Policy.