

# Principal risks and uncertainties

The following table summarises the Group’s principal risks and uncertainties. Control of each of these is critical to the ongoing success of the business. As such, their management is primarily the responsibility of the Chief Executive and the GMT, together with the roles noted below.

The Board has finalised its assessment of these risks and has concluded that the likelihood of these principal risks affecting the business has remained at the level previously reported. We maintain a Sustainability and Climate Change Risk and Opportunity Register to monitor

other sustainability issues that could affect the Group. In addition, our climate change-related risks and opportunities are available as part of our 2018 CDP submission. More information is available at [www.taylorwimpey.co.uk/corporate](http://www.taylorwimpey.co.uk/corporate)

**Robust risk management underpins our strategic approach, with each risk area identified and carefully monitored by the Board and management team.**



**Key:**

- A:** Government policy and planning regulations
- B:** Impact of the market environment on mortgage availability and housing demand
- C:** Material costs and availability of subcontractors
- D:** Ability to attract and retain high-calibre employees
- E:** Land purchasing
- F:** Site and product safety

The icons below help to signpost the change in risk

- Increase in risk
- Decrease in risk
- Level risk

## A: Government policy and planning regulations

### Overview

Additional initiatives and legislative and regulatory amendments to the National Planning Policy Framework (NPPF) were signalled by a Housing White Paper in February 2017, to address the delivery of greater housing availability for the UK. Consultations continued into 2018 and the Government subsequently introduced amendments, resulting in the issue in July 2018 of NPPF (2018) and consequential changes to the National Planning Policy Guidance.

The Government-backed Help to Buy (HtB) scheme has helped to fund home deposits for certain homebuyers. During 2018, the Government announced that the current scheme would end as expected in 2021 and announced an extension scheme which will be in place from 2021 to 2023, for first time buyers and which will be subject to regional home price caps. The proposed changes will allow an orderly unwind from the scheme, but as predicated will require a critical review of sales rates assumptions, unit mixes and likely customer behaviour.

In light of the Grenfell Tower tragedy, the Government consulted on proposals to ban the use of combustible materials in the external walls of high rise residential buildings. Following the consultation, an amendment to Approved Document B of the Building Regulations was issued in December 2018, implementing the proposals in full for works where an initial notice was issued to the local authority on or after 21 December 2018. Changes to the Building Regulations are forward looking in terms of implementation.

In May 2018, Dame Judith Hackitt's Independent Review of Building Regulations and Fire Safety (the Hackitt Review) was published, and the Government subsequently committed to the full implementation of the recommendations contained within the review. The review was wide ranging, taking in the regulatory frameworks around the design, construction and management of buildings, the advice and guidance that supports those regulatory frameworks and the responsibilities of those involved throughout the life cycle of the building. The review recommended restrictions on the use of assessments in lieu of tests (commonly referred to as desktop studies) to demonstrate compliance with Approved Document B of the Building Regulations. The Government consulted on this in spring 2018 and consequently included a full ban on the use of desktop studies within the December 2018 amendment to Approved Document B.

Sir Oliver Letwin delivered his final report in November 2018 (the Letwin Review) on the gap between planning permissions and starts on site. The Government's response to the recommendations of the review is expected in early-2019.

Late in 2016, some customers expressed concern about the ground rent escalating terms of their leasehold agreements with their freeholder. These clauses exist for some Taylor Wimpey homes, on sites commenced between 2007 and 2011, and specified that ground rents will double every ten years until the 50th year, at which point the rent is capped. We resolved that such clauses were not consistent with our cultural values. In October 2018, the Government launched a second consultation into

leasehold properties, following their proposals to ban the sale of houses on a leasehold basis and plans to lower future ground rents to a nominal fee. Whilst Taylor Wimpey no longer sells houses on a leasehold basis, like most other volume housebuilders, our business model is to transfer the freehold, management and upkeep of apartments and other developments to third party organisations.

### Responsibility

Group Operations Director  
Regional Managing Directors

### Relevance to strategy



Our ability to build great places to live is dependent upon creating site plans which inspire and delight our customers, delivered at an affordable price. Obtaining timely planning permissions and achieving other regulatory requirements and permits, is key to starting on site as soon as possible and to home delivery. There remains a risk of delayed or refused planning applications, increased timescales to the discharge of planning conditions and complexity around Section 106 agreements and Community Infrastructure Levy (CIL).

As elements of the anticipated changes from the introduction of the NPPF (2018) take effect, together with the amendments to the HtB scheme announced in October 2018, there could be a change in demand for specific products. In turn, this may lead to changes to site mixes, and to extended time frames to gaining revised planning consents.

### Change in risk



### Potential impact on KPIs

Unforeseen delays, our inability to obtain suitable planning consents and disruption from changes to planning regulations, could impact on the number or type of homes that we build.

With the consultation on changes to developer contributions and CIL, we may be required to meet higher levels of planning obligations, so incurring additional costs. The locally produced CIL charge schedules may increase costs, impacting the viability of developments in our short term landbank.

Changes to Building Regulations on tall and other buildings, although likely to be limited in impact to the Group, could introduce delays to implementation, re-work to sites and increased costs.

The end of HtB in 2021 and the extension scheme for first time buyers subject to regional caps until 2023, could see lower sales rates and potentially a greater number of smaller homes required by our customers.

Together, these changes could have a detrimental impact on the gross profit per plot.

### Mitigation

We operate within our comprehensive community-led planning strategy. This improves communications with all parties, but especially local communities, thereby enhancing our ability to deliver developments that meet local requirements.

We continually review changes to Building Regulations and supporting guidance.

We consult with Government agencies and Opposition parties on housing policy, both directly and indirectly as a member of industry groups, to highlight potential issues and to understand any proposed changes to regulations and policy.

We implemented the Taylor Wimpey Ground Rent Review Assistance Scheme (GRRAS) in April 2017, for our customers wishing to alter the terms of their lease to materially less expensive terms based on RPI. We take a prudent approach to the potential sale of freeholds with regard to our apartment schemes, by excluding the potential for their sale revenues in our land purchasing decisions.

### Progress in 2018

Our customer and community engagement strategy is embedded and having a positive effect. We have been successful in gaining planning consents throughout the year with particular emphasis on the conversion of the strategic land pipeline.

We continue to represent the Group, via the HBF, on broader planning and local plan matters, to ensure local plans are robust and CIL charge schedules are appropriate. We have met with Government officials on a number of occasions through the year including discussions on HtB, New Homes Ombudsman, leasehold, and building remediation following the Hackitt Review.

Following the amendment to Approved Document B of the Building Regulations in December 2018, we have taken measures to ensure all future home designs will meet and fully comply with the relevant amended regulations and standards. Internally, we issued guidance in March 2018 which banned the use of combustible materials on all new buildings over 18 metres tall, and which also banned the use of desktop studies as a means to demonstrate compliance with Approved Document B.

Following the implementation of the GRRAS, by the end of 2018 we had varied over 2,600 leases, with a further c.1,900 accepted onto the scheme.

### How does the Board review this risk?

The Group Operations Director updates the Board on developments concerning the planning and regulatory backdrop, bringing to its attention any areas of concern.

Issues are then discussed by the Board which decides any necessary action.

The CEO/Group Operations Director also report to the Board on areas of industry consultation with authorities.

**i** Read more on pages 8 to 11

## Principal risks and uncertainties continued

### B: Impact of the market environment on mortgage availability and housing demand

#### Overview

The cost of servicing a mortgage continues to be at historic lows. However, a change in business confidence, employment opportunities or significant changes in the Bank of England base rate that is not combined with wage growth could negatively impact the demand for housing, which may also lead to lower selling prices.

The ability of first time buyers to purchase homes is constrained by changes in mortgage availability at the higher loan-to-value levels. The Government-backed Help to Buy (HtB) scheme helps to fund the home deposit for these and other homebuyers. During 2018, the Government announced that the current scheme would end as expected in 2021. However, the Government also announced an extension scheme which will be in place between 2021 until 2023, for first time buyers only and which will be subject to regional home price caps.

Sustained growth in interest rates, together with low wage inflation or reduced confidence in continued employment, could challenge mortgage affordability. Strict guidelines are in place for lenders to assess mortgage affordability if interest rates were to rise. Furthermore, the Bank of England has powers to set loan-to-value and debt-to-income limits for financial institutions selling residential mortgages.

#### Responsibility

UK Sales and Marketing Director

Regional Sales and Marketing Directors

#### Relevance to strategy



The majority of the homes that we build are sold to individual purchasers who take on mortgages to finance their purchases.

Loss of economic confidence as the UK leaves the EU may impact on demand for new build housing and sales prices. This may be tempered to some extent by the current imbalance between demand and supply. Future decisions made by the Government around homebuyer initiatives, new legislation or stamp duty, and by the Bank of England about interest rates, are likely to create both risks and opportunities for homebuilders and their customers.

#### Change in risk



#### Potential impact on KPIs

A reduction in demand for new homes below normal levels could negatively impact on both profit and cash generation, adversely affecting return on net operating assets.

#### Mitigation

Our local teams select the locations and home designs that best meet the needs of the local community and customer demand in the present and future. We evaluate new outlet openings on the basis of local market conditions and regularly review the pricing and incentives that we offer. We work closely with the financial services industry to ensure customers receive advice on the procurement of mortgage products.

#### Progress in 2018

We continue to promote the Government-backed HtB scheme and our customers demonstrate strong demand for the scheme. We monitor usage of HtB by our customer base to understand how the planned change to the scheme in 2021, and its withdrawal in 2023, may impact the desired design and location of homes required in the future.

Throughout 2018 we continued to develop good working relationships with established mainstream lenders and those wishing to increase volume within the new build market.


#### How does the Board review this risk?


A suite of KPIs and leading indicators was introduced in 2011 to help the Board and GMT monitor economic conditions over the cycle.

Together with internal weekly sales data this provides a guide to prevailing market conditions.

A green, amber, red traffic lights system flags to the Board the nature and direction of risk. The Board considers these in its decision making.

For example, we have piloted the Springboard rent to buy initiative to make home ownership possible for a greater number of people.

 **Read more** on pages 26 to 27

 **Read more** on pages 8 to 11

## C: Material costs and availability of subcontractors

### Overview

A continued increase in housing demand and production may further strain the availability of skilled subcontractors and materials and put pressure on utility firms to keep up with the pace of installation.

Leaving the EU could reduce the availability of skilled workers given the relatively large proportion of the labour force, particularly in the South East, that is from Eastern Europe.

Further, in the event that no deal is agreed between the UK and EU, on leaving the EU the Group could experience some materials shortages as World Trade Organisation rules are applied through the supply chain.

Together, this could result in build programme and completion delays and unexpected cost increases.

### Responsibility

Group Operations Director

Head of Procurement

Regional Commercial Directors

### Relevance to strategy



We aim to commence work on new sites as soon as planning consents allow, to accelerate build progress and optimise return on capital employed. The majority of work performed on our sites is subcontracted, providing flexibility and supporting our strategy.

### Change in risk



### Potential impact on KPIs

If the availability of subcontractors or materials is insufficient to meet demand, this could lead to longer build times and increased costs, thereby reducing profitability and return on capital employed.

Lack of skilled subcontractors could also result in higher levels of waste being produced from our sites and lower build quality.

### Mitigation

We maintain regular contact with suppliers, negotiating contract volumes, pricing and duration through our procurement and logistics function. We provide high level and site-specific programme information to the subcontractor base to aid with demand planning. When selecting our subcontractors, we consider competencies particularly in relation to health and safety, quality, previous performance and financial stability.

We announced a number of mitigating measures at our Capital Markets Day in May 2018. We commenced a programme to take on more direct trades across key skills, adopting a hybrid labour model where we look to employ experienced hires and develop new talent for the industry through Apprenticeship and Career Conversion Schemes. This supports Diversity and Inclusion and the Government's Social Mobility Pledge, Armed Forces Resettlement and working with disadvantaged groups such as ex-offenders and the homeless. We are closely aligned with the Construction Industry Training Board and Home Builders Federation.

We also assess alternative build methods to reduce reliance on traditional brick and block techniques and resources.

### Progress in 2018

Availability of materials is generally in line with demand but there remain pinch points with key products such as bricks, blocks, roof tiles and doors. The Group has agreed product lines and volumes with key suppliers to mitigate long lead times and shortages, and can maintain a flexible level of particularly scarce materials at its national warehouse.


We are continuing to trial several different build methods as alternatives to conventional brick and block. The use of timber frame has been extended during the year, with plans to increase its usage further over the coming 3-5 years. Employment of direct trades has been successfully trialled across six regions in the country.


### How does the Board review this risk?


The Group Operations Director reports to the Board on the national supplier agreements. This includes discussion of our meetings with key suppliers such as brick contractors and any reporting by these companies.


Any areas of concern such as labour or material supply are also reported on.

The suite of KPIs includes an assessment of build cost and market movements.

 **Read more** on pages 26 to 27

 **Read more** on page 34

 **Read more** on page 7

 **Read more** on page 29

## Principal risks and uncertainties continued

### D: Ability to attract and retain high-calibre employees

#### Overview

Recruiting employees with inadequate skills or in insufficient numbers, or not being able to retain key staff with the right skills for the future, could have a detrimental impact on our business.

#### Responsibility

Group HR Director

Every employee managing people

#### Relevance to strategy



Our business model requires significant input from skilled people to deliver quality homes and communities. There continues to be competition amongst employers in the housebuilding and construction industries for sector-specific staff. Shortages exist across the industry in the main manual trades and in certain managerial and professional occupations. This could impact our ability to achieve our strategic goals.

#### Change in risk



#### Potential impact on KPIs

Not filling critical roles or having a significantly changing work force could lead to delays in build, quality issues, reduced sales levels, poor customer service and reduced profitability.

#### Mitigation

We monitor employee turnover levels closely and conduct exit interviews to identify any areas for improvement. We benchmark our remuneration to ensure that we are competitive within the industry.

Clear succession plans are in place for key roles within the Group. Our renewed approach to succession planning enables more internal candidates to be promoted to senior roles. We hold regular development reviews to identify training requirements.

#### Progress in 2018

We extended the management training and graduate programme in response to emerging gaps in our pipeline, leading to an increase in trainee and graduate numbers and the types of programme we offer. We have also increased our employment brand exposure through greater content being posted on channels such as LinkedIn and Glassdoor. In 2018, Taylor Wimpey was in the top 10 companies to work for according to Glassdoor, and we increased our LinkedIn following by over 30% and this now stands at 36,000.


Since 2017, 227 Customer Service employees have been enrolled onto the Academy for Customer Excellence to improve the skills and confidence of our customer facing employees, and all new starters are automatically enrolled in the "Learning the Essentials" module.

The Production Academy provides a clear development pathway supported by an NVQ for Assistant Site Managers, Site Managers and Production Managers. We are supporting over 250 site-based staff and c.20 office-based Production Managers through the academy, with 77 people who have now achieved the Taylor Wimpey Diploma. We have increased the numbers of apprentices, both direct and indirect, in the year.

#### How does the Board review this risk?

The Board regularly reviews human resource and wider employee matters. This is done through the consideration and discussion of regular reports submitted by Executive Directors and through regular reports and presentations from our senior management and external advisors. The Board and individual Directors also undertake regular visits to our regional businesses and their development sites.

 **Read more** on pages 20, 25, 32, 33

 **Read more** on page 28

## E: Land purchasing

### Overview

The purchase of land of poor quality, at too high a price, or incorrect timing of land purchases in relation to the economic cycle could impact future profitability.

### Responsibility

Divisional Managing Directors

Regional Managing Directors

Regional Land and Planning Directors

Strategic Land Managing Directors

### Relevance to strategy



Land is of primary importance to the Group. Limited availability of good-quality land at an attractive price can lead to significant and unsustainable competition. The disciplined purchasing of land on attractive terms and at the right time and scale in the economic cycle, will support the Group's ability to deliver enhanced and sustainable margins and returns on capital employed.

### Change in risk



### Potential impact on KPIs

Purchasing poor-quality or mispriced land, or incorrectly timing land purchases, would have a detrimental impact on our profitability and return on capital employed.

Acquiring insufficient land would reduce our ability to actively manage our land portfolio and create value for shareholders.

### Mitigation

Our land teams prepare annual Land Strategy documents to guide their land searches to match the needs of each individual business. They select and appraise each site, with the appraisal process ensuring that each project is financially viable, consistent with our strategy and appropriately authorised.

We strive to be the developer of choice, through a comprehensive approach encompassing land vendors, land agents, local councils and local communities.

Our strategic land teams work alongside regional businesses to identify and secure land with the potential for future development and to promote it through the planning system.

### Progress in 2018


The short term land market remained relatively benign throughout 2018, although increasing competition was observed in a number of geographies particularly for smaller sites and good quality strategic land opportunities. We continued to invest in value-creating land opportunities, maintaining strong discipline on quality, margin and return on capital employed.


We are mindful of external factors and continue to critically assess opportunities for robustness in changing circumstances. The strong level of conversion from the strategic pipeline means our reliance on purchasing short term land is diminished, providing some insulation from land price increases.

### How does the Board review this risk?

The Group Operations Director updates the Board on the latest developments in the land market and our material purchases and agreements.

The Board reviews the return on capital criteria for land in light of current market conditions. For example, last year the Board raised the hurdle rate for new land acquisitions.

 **Read more** on pages 26 to 27

 **Read more** on pages 9 and 18

## Principal risks and uncertainties continued

### F: Site and product safety

#### Overview

Construction sites and operations can present risks to health and safety. Suitable and sufficient controls to eliminate or reduce the risks must be implemented and constantly monitored and measured. Unsafe practices by our employees or subcontractors, and unsafe product quality, have the potential to cause death or serious injury.

In light of the Grenfell Tower tragedy, the Government consulted on proposals to ban the use of combustible materials in the external walls of high rise residential buildings. Following the consultation, an amendment to Approved Document B of the Building Regulations was issued in December 2018, implementing the proposals in full for works where an initial notice was issued to the local authority on or after 21 December 2018. Changes to the Building Regulations are forward looking in terms of implementation.

In May 2018, Dame Judith Hackitt's Independent Review of Building Regulations and Fire Safety (the Hackitt Review) was published. The Government subsequently committed to the full implementation of the recommendations contained within the review, including restricting the use of assessments in lieu of tests (commonly referred to as desktop studies) to demonstrate compliance with Approved Document B of the Building Regulations. The Government consulted on this in spring 2018 and consequently included a full ban on the use of desktop studies within the December 2018 amendment to Approved Document B.

#### Responsibility

Director of Health, Safety and Environment

Group Operations Director

Group Director of Design

Every employee and subcontractor

#### Relevance to strategy



Our operations involve, and interface with, a large number of people. This ranges from employees and subcontractors to customers and their families who live on, or visit, our sites each day. We want everyone to go home at the end of the day uninjured and healthy.

#### Change in risk



#### Potential impact on KPIs

In addition to the potentially tragic personal impact of an accident on site or involving a customer after completion, there is potential for legal proceedings and civil action, financial penalties, reputational damage and subsequent delay to operations.

#### Mitigation

A comprehensive Health, Safety and Environmental (HSE) Management System is embedded throughout the business, supported by policies and procedures to ensure that we provide a safe and healthy working environment and build homes that comply with the required building standards and regulations.

We provide extensive ongoing HSE training for our employees and provide HSE inductions and regular Site Safe Briefings for our contractors and operatives to supplement their HSE training.

'Blue Hat' support teams from our employee and contractor base on site, are integrated into our site management and support teams, where they assist our site managers to demonstrate and communicate the HSE ethos and support maintaining a safe site.

Following guidance from the Government's Independent Expert Advisory Panel, we have identified all buildings over 18 metres tall constructed by or for Taylor Wimpey, which incorporate Aluminium Composite Material (ACM) into their facade. For all such buildings, we have notified the persons responsible for the buildings and have directed them to the interim mitigation advice issued by Government. In a number of instances where the special circumstances deemed it to be appropriate, we have also followed Government guidance by seeking independent professional advice on any further action that should be taken.

HSE performance and issues are reviewed by the GMT on a timely basis and actions put in place to continually drive improvement and rectify issues and help prevent a recurrence.

#### Progress in 2018

Our Annual Injury Incidence Rate (AIIR) for reportable injuries per 100,000 employees and contractors was 228 in 2018, an increase from our record low of 152 in 2017. Our AIIR for major injuries per 100,000 employees and contractors was 64 in 2018 (2017: 54). Our AIIR remains below both the HBF Home Builder Average and the Health and Safety Executive Construction Industry Average, and we are committed to reducing it further.

We were deeply saddened by the death of a subcontractor on our Stoneley Park site in Crewe in July 2018 following a serious accident. We are assisting the Health and Safety Executive with the ongoing accident investigation and await their findings. We have offered support to everyone working on the site, encouraging them to access counselling via our employee assistance scheme.

As a result of our incident analysis, we continued our increased focus on site housekeeping and ensuring that both our site management teams and contractors check work areas prior to the commencement of new tasks and activities to ensure the relevant controls are in place and the work area is safe.

We continued to expand our successful 'Supervisory Safety' initiative with over 5,000 Groundworks Supervisors trained to date. Over 400 groundworkers were provided with HSE refresher training and HSE training for our 'Blue Hat' support workers as part of our 'Creating a Site Team Approach'.

Following the amendment to Approved Document B of the Building Regulations in December 2018, we have taken measures to ensure all future designs will meet and fully comply with the relevant amended regulations and standards. Internally, we issued guidance in March 2018 which banned the use of combustible materials on all new buildings over 18 metres tall, and which also banned the use of desktop studies as a means to demonstrate compliance with Approved Document B.

Further, in light of Government advice on tall buildings, we have undertaken expert reviews on a number of buildings. Where the ownership aspects and specific circumstances made this appropriate, we have worked with building owners, management companies, independent fire safety experts and local fire and rescue services to agree a schedule of works to remediate tall buildings with combustible ACM.

#### How does the Board review this risk?

HSE is the number one non-negotiable priority and is reviewed at every Board meeting. This includes a review of site safety status; incident rates; incident type (with a focus on serious incidents). Next steps, such as process and procedure changes are reviewed and agreed upon.



**Read more** on pages 32 to 33

## Assessment of Prospects

We consider the long term prospects of the Group in light of our business model. Our strategy to deliver sustainable value is achieved through delivering high-quality homes in the locations where people want to live, with excellent customer service, whilst carefully managing our cost base and the Group's balance sheet. Management re-evaluates the medium to long term strategy, in the light of external, economic and industry changes. If appropriate, management adapts the strategy accordingly, in light of changes; for example, for material changes in planning and the wider housing market fundamentals. The Group strategy is underpinned by our short term landbank, which supports c.5.1 years of development at current completion levels. Additionally, the Group ensures a strong, long term supply of land, with its Strategic Land business promoting land through the constrained planning process. The Group has over eight-years supply of land at current completion levels in its strategic land pipeline.

## Viability Statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board conducted their viability assessment for a period of five years, having extended the assessment period from three to five years in 2017, and similarly extended the horizon of the 2018 operating plan to better reflect the forecast period that the Board considers. The Company operates in a market which is prone to cyclical, tending to follow the UK economic cycle. It is impacted by Government policy, planning

regulation and the mortgage market. However, the Board considers that the Company has reasonable visibility over a five-year time horizon. This period aligns with the average build out time for a development phase from the point of land acquisition to final delivery to our customers.

The viability assessment includes the Group's income statement, balance sheet, cash flows, KPIs and debt covenants, and considers the potential impacts which may arise from the Principal Risks of the business as described on pages 44 to 50. It includes macro-economic and industry-wide projections as well as matters specific to the Group.

The assessment considers sensitivity analysis on a series of realistically possible, but severe and prolonged, changes to principal assumptions. This downside scenario reflects the potential impact of a sharp decline in customer confidence, disposable incomes, and higher mortgage interest rates as may be experienced as a secondary impact to the Group from the UK leaving the EU. During 2019, we reduced volumes from 2018 levels by 30% and selling prices by 20%, with no recovery. The assessment also reflects a one-off exceptional charge and cash cost of £150 million for an unanticipated event or fine. Finally, the recommencement of pension contributions at £40 million per annum has been modelled throughout the five-year period. We considered mitigating actions, assuming continued investment in land, albeit at a reduced level, and the continued payment of the annual ordinary dividend of £250 million throughout the period. Based on the results of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.