

Bellway p.l.c

Agreement of voluntary pledge with Department for Levelling Up, Housing and Communities in relation to historical fire safety issues

Thursday 7 April 2022

Bellway p.l.c. ('Bellway' or the 'Group'), the national housebuilder, announces today, Thursday 7 April 2022, that further to the update provided in the Interim Results issued on 29 March 2022, it has agreed a voluntary pledge with the Department for Levelling Up, Housing and Communities ('DLUHC') in relation to historical fire safety issues on buildings where Bellway has played a role in their development.

Jason Honeyman, Chief Executive, commented:

"The issue of life-critical fire safety defects in apartment schemes is a sector-wide challenge and Bellway has engaged extensively and constructively with DLUHC over recent months, both directly and through the Home Builders Federation ('HBF'). We have always taken the issue of building safety very seriously and agree with the Government's principle that residents should not have to fund life-critical fire safety remedial works. Our engagement to date and commitment to continue our responsible approach has resulted in Bellway today making a pledge that schemes constructed by us or on our behalf in the last 30 years will be remediated. This is a positive outcome for affected residents, made in the best long-term interests of the Group and will help to secure our ongoing reputation as a leading responsible homebuilder."

Background

Following the tragic events at Grenfell, the Government, the construction industry, lenders, and the wider housing market understandably increased their focus on fire safety issues in apartment blocks. The Government subsequently issued further guidance, particularly through the Consolidated Advice Note ('CAN'), which set out detailed processes to ensure adequate fire protection measures and limit combustibility in external wall systems of buildings. The CAN was withdrawn in January this year as the Government concluded it was leading to an overly cautious and impractical approach to fire safety.

While both building regulations and their interpretation have evolved over time, apartment blocks will now be assessed in accordance with the newly published Publicly Available Specification ('PAS') 9980:2022, produced by the British Standards Institute. This seeks to bring a more pragmatic and proportionate, risk-based approach to remediating building fire safety issues, with the intention that lenders and surveyors should adopt a similar approach when assessing buildings in order to help address the current hiatus in the apartment mortgage market.

More recently, a key ambition of the Government is that builders agree to self-remediate life-critical fire safety defects, including cladding, external wall systems and more general fire safety issues, on developments where they have played a role in the construction process, over an extended timespan of 30 years. Their intention is that builders address issues on apartments over 11 metres in height,

notwithstanding the often complex origin of problems, arising not only through the design and planning process, but also through shortcomings from suppliers, subcontractors, building control and warranty providers.

Actions to date

The Group has responded positively and diligently to evolving Government guidance and made substantial progress to date.

Initially, the Group reviewed its legacy portfolio with a focus on apartment schemes over 18 metres with cladding systems, in line with where there was a greater perception of risk, and identified several developments, which were given building regulation approval at the time of construction, where the fire safety measures within buildings may not have fully complied with the now withdrawn CAN. As a responsible housebuilder, the Group agreed to procure remediation works at its own cost on those schemes. Thereafter, we widened our approach to include all apartment buildings over 11 metres in height, constructed by both Bellway and its main contractors, which were generally built within our 10-to-12 year warranty period. This resulted in further building safety repair requirements being identified, on some of those blocks.

Work has been completed on four developments, is underway on 13 developments and is in design stages on a further three developments. Importantly, this work is being undertaken at no cost to residents, regardless of whether the Group retains ownership of the freehold of the building.

The Group has so far set aside a total of £186.8 million since 2017 in relation to these works and the remaining provision at 31 January 2022 was £128.3 million.

Our commitment

Bellway agrees with Government that leaseholders should not have to pay for any costs associated with necessary life-critical fire safety remediation work arising from the design or construction of buildings they live in and has therefore entered into a pledge with DLUHC that we will:

- Fund, or undertake at our own cost, or procure as quickly as reasonably possible all necessary remediation or mitigation work to address life-critical fire safety issues arising from design, construction or refurbishment defects on buildings above 11 metres in England which Bellway played a role in developing or refurbishing that have been built by the Group since 5 April 1992. The standard of remediation will be assessed proportionately to the standard as articulated in the PAS methodology and other relevant industry standards to ensure that affected buildings meet a life-critical safety standard;
- Withdraw any buildings that we have played a role in constructing from the Building Safety Fund and ACM Funds, and reimburse any costs incurred to date by those funds; and
- Publish the pledge on our website, and agree a process with DLUHC for contacting building owners of buildings falling within scope, of the pledge, to agree the steps required to meet its objectives.

The terms of the pledge reflect the broad principles of the Government's recent amendments to the Building Safety Bill and Bellway will be working with DLUHC and the HBF over the coming weeks to agree the contractual documentation required to make the terms legally binding.

The Board has agreed that Bellway will enter into this commitment acknowledging that resident safety is of paramount importance. The Board has also listened to the concerns expressed by a wide variety of stakeholders, including shareholders, over an issue that is affecting the wider construction sector, and believes that it is in the best long-term interests of the Group.

Funding our commitment

The Board has considered the information currently available to it and has determined that the best estimate of the cost of the pledge will be around £300 million in addition to the £186.8 million already set aside since 2017. The additional cost is expected to be recognised as an adjusting item for the year ending 31 July 2022.

Although the application of the PAS is still under consideration by both the Group and the wider industry, the Board nevertheless believes that the estimate is robust as it has been calculated based on our extensive experience to date, using analysis of previously tendered works and prudent, professional estimates based on knowledge of known issues. In addition, on developments where full investigations have not yet been undertaken or cost reports obtained, costs to date on similar developments have been used to assess the likely cost. We have also made assumptions with regards to the likely cost of resolving potential issues, that we have not yet been made aware of, on schemes covered by the extended 30-year period. The Board will continue to refine the estimate over the coming months and provide an update at the Preliminary Results on 18 October 2022.

The cost estimate assumes that the Group incurs the full costs of remediation, with no future recoveries, other than settlements already contractually agreed, from main contractors, or those in the supply chain who fell short of the standards required. Costs have been provided regardless of whether Bellway still retains ownership of the freehold interest in the building or whether warranty providers have a responsibility to carry out remedial works. The Group has already recognised total recoveries of £29.7 million since 2017 and will continue to pursue further recoveries from suppliers, subcontractors, professional advisors and others, where they have a liability, although we note that these are likely to be unavailable where contractual limitation periods have expired.

The cash outflow is expected to be over a period of several years, reflecting the complex issues around remediation including identifying the works required, design and planning obligations, interpretation of PAS, liaison and negotiations with building owners, and appointment of contractors. The Group's strong balance sheet is well capitalised, and as at 31 January 2022, Bellway had net cash of £195.8 million, a net asset value of £3,429.8 million and committed debt facilities of £530 million. The Group is therefore well placed to meet its long-term commitments under the pledge, made in the best interests of residents and shareholders and to secure the long-term success of the Group. Importantly, the cost is manageable and will not be detrimental to the Group's growth ambitions nor higher dividend returns for shareholders.

Approach to remediation and future fire safety standards

The challenge presented both to the wider sector, and to the Group, to address fire safety issues over the period covered by the pledge is significant and complex, involving many different parties. We

have a clear operational strategy to deal with building safety issues and are therefore in the process of establishing a dedicated and experienced building safety division, led by its own Managing Director, reporting directly into our Head Office. The division will be responsible for all issues relating to fire safety, including training and policy requirements for new schemes and remediation of legacy schemes, in the most cost-efficient way. This division will be well resourced, building upon the significant investment in resources made to date, with primary responsibility for liaison and negotiation with management companies, residents and other interested parties and will allow the wider business to continue its focus on growth and deliver our long-term strategic objectives.

The Group's obligations with regards to building safety are of the upmost importance and this new structure is also being put in place to ensure that legacy fire safety design and construction defects are not repeated in current or future apartment schemes. In adopting this approach, Bellway recognises the wider responsibilities of contractors, product manufacturers and suppliers, warranty providers, architects and building control regulators to ensure a robust fire safety regime in the years ahead.

The Board understands that by adopting this proactive and responsible approach there will inevitably be some disruption as remediation works are undertaken and therefore apologises to all residents affected.

Going forward

We will continue to engage positively with the Government to establish a workable, sector-wide solution towards more widespread fire remediation issues in medium-rise buildings. We welcome the Government's commitment to work with lenders, insurers, the Royal Institute of Chartered Surveyors and others to ensure a more proportionate and risk-based approach is embedded across the system.

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