Councils with ALMOs Group - Responses to Cost of Living Increases and Inflationary Pressures Questions.

Question 1 - In terms of cost, what is the likely impact of rising inflation and cost of living, both now and in the future?

This is a very broad question – the most pressing immediate impact is around the 2023 rent settlement – see earlier email to Victoria Latham dated 29th June 2022 (attached).

Key issues

- Whilst adhering to the current rent formula of CPI plus 1% would enable councils to meet the inflationary costs they are facing within the Housing Revenue Account, increases of this magnitude are unaffordable for tenants (particularly given other above inflation cost increases they face, particularly on fuel).

- This will inevitably lead to an increase in arrears and bad debts and associated management costs in terms of chasing up and managing tenancies. There will also be increased demand for money advice services but no additional resourcing for this.

- Circumstances will vary between local authorities, but for most it is unlikely to be politically acceptable to raise rents to the formula leading to a range of different decisions and long-term impacts around the country, critically any rent increase foregone cannot be caught up and with long-term adverse effects over the 40-year life of the HRA Business Plan.

- If authorities opt for the formula or close to formula increase, this will generate a higher income than planned and for some authorities may generate resources to fund other things e.g. decarbonisation. Conversely such increases will impact the benefit bill as roughly 60% of social housing tenants receive Housing Benefit or UC housing allowances.

Question 2 - What impact have these pressures already had (e.g., on maintenance, responsive works, major works, upgrades, and development plans)?

CWAG members are reporting the following pressures and impacts they are already experiencing:

- The need to adjust 2022/23 budgets to take account of, and plan for overspend forecasts on utilities, biomass, materials, fuel, and staffing.

- Fuel cost increases for fleet vehicles are increasing operating costs.

- Repair and Maintenance costs are increasing by as much as 10%, including contracts such as grounds maintenance, CCTV/door entry and cleaning.

- Market forces, component shortages, the war in Ukraine and high energy costs are impacting on material availability and substantially higher product costs, with price adjustments typically occurring weekly.

- There is a backlog of repairs from Covid due to govt guidance in place at the time and the cost of tackling this is rising.

- Supply chain issues mean that it takes longer to turn round void properties which increases void income loss. This is not helped by properties becoming void needing more refurbishment before they can be relet due to Covid linked repair backlogs.

- The energy cost crisis is having a major impact on tenants, who are often unable to effectively heat their homes. This is creating higher incidents of condensation and dampness, which is exacerbating the presence of mould in homes. This will impact on maintenance costs.

- Costs of fuel for district heating - the rate to recover costs from tenants will need to increase by 60%

- There is an increase in households in arrears and increasing food bank referrals are being made.

Question 3 - Do you anticipate pressures will impact future services and supply, if so how and when?

We anticipate the following pressures going forward:

Salary related costs

- The recent increase in NI contributions, pressures around nationally agreed pay increases and the nationwide labour shortages make it increasingly difficult to compete for staff to fill key vacancies, creating additional pressures on the delivery of services and maintaining balanced budgets.

Impact on customers

- While inflation impacts everyone, it is recognised that it impacts the poorest hardest given they spend a larger fraction of their budget on energy and food. With a high proportion of tenants living in the lowest income groups, many tenants will experience inflation and the cost-of-living pressures more acutely than higher-income households.

- Our members anticipate an increased level of demand for support related services in relation to issues such as overcrowding and inappropriate/unaffordable housing (particularly in the private rented sector), poor mental health, an increase in domestic abuse (given the significant link between poverty and DA) and a corresponding link between household income and the neglect and abuse of children and adults with care needs.

Fuel Poverty / Inadequate heating of property

- There are likely to be impacts relating to inadequate heating of the properties as costs continue to rise. There is direct link with health which will become more pressing as we move into the colder months. Elderly and disabled residents are likely to be particularly severely impacted.

- Pressures relating to energy costs are also likely to have a greater impact on tenants living in older properties which are less energy efficient.

- We also anticipate an increase in problems relating to damp and mould problems as tenants struggle to keep their properties heated and fund appliances such as tumble dryers. Addressing these issues can be challenging and expensive to rectify as well as increasing void turnaround times.

- Increasing problems of damp and mould may also lead to an increase in disrepair claims, particularly arising from third party legal firms. This is already a sector-wide issue but likely to get worse as aggressive and often misleading marketing by claim management companies to tenants results in high legal and defence fees and other additional expenditure in order to settle claims.

Newbuild

- Housing development is currently being underpinned by a relatively buoyant housing market. If this stagnates, whilst inflationary pressures on construction are maintained at or increase beyond their current levels then individual schemes may need to be paused.
- It is becoming increasingly difficult to find companies willing to tender for new build contracts due to inflation risks. The result is procurement delays during which prices increase further and no new homes are built.

- Inflationary pressures will inevitably result in fewer homes being built from the budget available.

Refurbishment / Decarbonisation Programmes

- Similar to newbuild, refurbishment and maintenance programmes are likely to be severely impacted by current inflationary pressures, for example one CWAG member reported that inflation forecasts are expected to increase costs on the current 5 year refurbishment programmes by £50m from £293m to £342m (17%).

- Other examples of areas where costs are rising sharply include scaffolding/access and roofing supply chain costs along with energy intensive products such as steel, concrete tiles. Labour shortages (particularly specialist skill sets) remain and are adding to external supply chain costs.

- Additionally, the inflationary pressures are making some aspects of decarbonisation programmes unfeasible, particularly measures like External Wall Insulation. This is impacting on the scale and scope of the delivery of HRA and SHDF funded programmes.

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4th August 2022