



Essex County Fire and Rescue Service Medium Term Financial Strategy 2022/23

Update May 2022

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1. Background

The latest Medium Term Financial Strategy (MTFS) was approved at the Strategic Board on 9th March 2022.

The economic situation over the last few months is creating a more unstable environment, which is resulting in pressures on the cost of living. A core part of the problem is the increasing rate of inflation.

The latest quarterly Bank of England Monetary Policy Report was published on 5th May 2022 ([Monetary Policy Report - May 2022 | Bank of England](#)). The report sets out the economic analysis and inflation projections that the Monetary Policy Committee uses to make its interest rate decisions.

The key points from the report are shown below:

- The UK inflation target remains at 2%.
- The UK rate of inflation is 7%. This is being driven by the increase in energy prices and the increase in the prices of goods purchased from abroad.
- The rate of inflation is expected to rise to around 10% this year.
- It is expected inflation to fall next year and to be close to the target set of 2% in around 2 years' time.
- The interest rate has been increased into order help inflation return to the 2% target.

Given the current inflationary pressure, it is expected that this will impact upon the Authority.

The table below shows is an extract of the from the 2022-23 budget that was approved by the Police, Fire and Crime Panel on 3 February 2022.

Core Budget	£'000s	% of Core Budget
Total Employment Costs	61,936	73.6%
Total Non Pay Costs	23,617	28.1%
Operational Income	(1,414)	(1.7%)
Net Expenditure Before Funding	84,139	100%
Funding	84,139	
Net (Shortfall) / Surplus	-	

Employment Costs for 2022-23 are based on a 2% Pay Award.

The Authority has a 3 year Electricity and Gas contract which is set to expire in September 2022. The 2022-23 budget included a 40% increase in these costs for the 6 month period from October 22 to March 23.

2. Sensitivity Analysis

The Key Assumptions in the MTFS that was approved in the March 2022 Strategic Board are shown below:

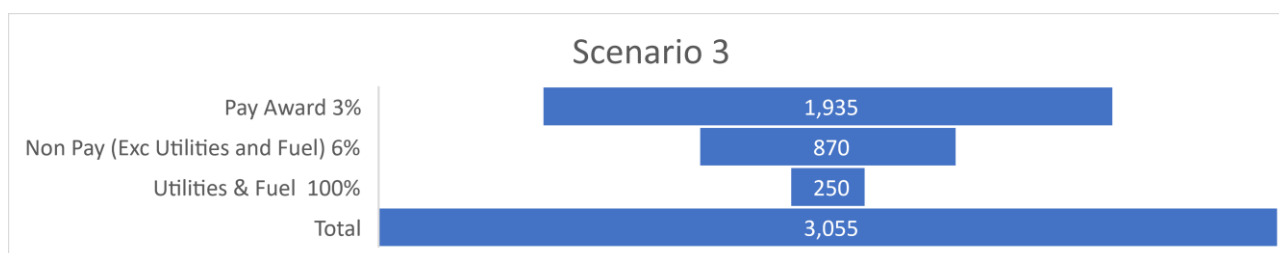
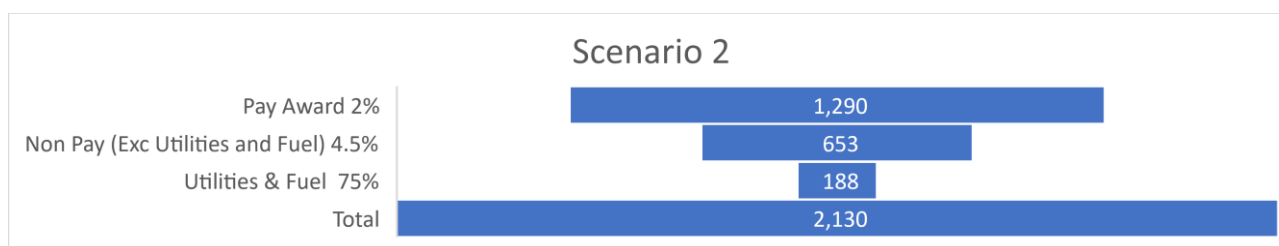
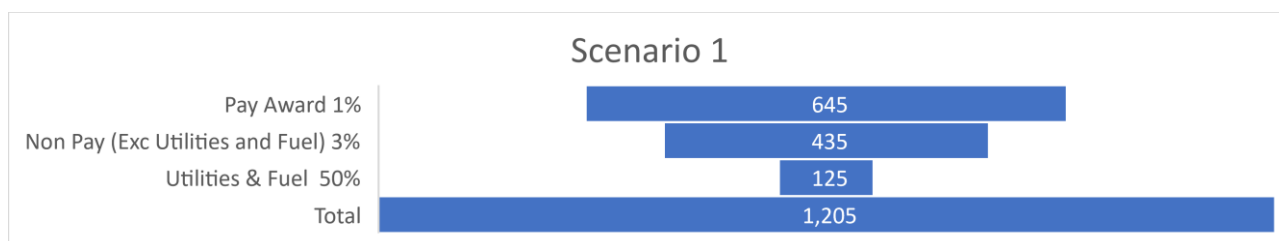
- 2% annual pay inflation
- 2% annual Non Pay inflation
- 2% annual increase in Council Tax Precept.

The table below shows the sensitivity analysis of some of the assumptions, in order to quantify the potential financial impact on the Authorities budgets.

	Impact of 1% Inflation £'000s
Total Employment Costs	645
Total Non Pay Costs (Excluding Utilities and Fuel)	145
Utilities & Fuel	3
Total	793

This shows that an additional 1% inflationary pressure would create a further cost pressure on the Authority of £793k.

A few different scenarios with the respective cost pressures that would arise on the Authority are modelled below.



At present, there is no precept flexibility, with a cap of 2% cap being applied on any Council Tax Increase (Based on Band D Properties).

In 2022-23, the lowest 8 lowest precept charging fire and rescue authorities were award flexibility to increase the precept up to £5. Our Authority does not fall into the lowest 8 charging fire and rescue authorities.

On this basis, should any of on the additional cost pressures identified in the Scenarios above come to fruition then, then these would need to be funded from additional savings or additional funding from the government.

3. Medium Term Financial Strategy

The MTFS update in the table below, is reflective of Scenario 2 from the Sensitivity Analysis.

This assumes that those inflationary pressures are applied for 2 years (2022/23 and 2023/24), and that the inflation returns to 2% in 2024/25 in line with the Bank Of England projections.

This MTFS is compared to the latest approved MTFS which was presented at the March 2022 Strategic Board.

MTFS as per March 2022 Strategic Board

Actuals			Projected	Medium Term Financial Strategy 2022/23-2024/25			
2019/20	2020/21	2021/22		2022/23	2023/24	2024/25	Total
£m	£m	£m		£m	£m	£m	£m
		80.9		84.0	84.1	87.1	255.2
		(0.6)		(1.8)	0.0	0.0	(1.8)
					(1.0)	(2.3)	(3.3)
		(0.6)		(1.8)	(1.0)	(2.3)	(5.1)
78.0	80.9	80.3		82.2	83.1	84.8	250.1
0.0	0.1	2.7		1.9	0.4	0.0	2.3
(77.9)	(81.7)	(80.1)		(82.2)	(83.1)	(84.8)	(250.1)
0.1	(0.7)	2.9		1.9	0.4	0.0	2.3
0.0	(0.1)	(2.7)		(1.9)	(0.4)	0.0	(2.3)
(0.1)	0.8	(0.2)		0.0	0.0	0.0	0.0

MTFS - June 2022 Strategic Board

Actuals			Unaudited	Medium Term Financial Strategy 2022/23-2025/26			
2019/20	2020/21	2021/22		2022/23	2023/24	2024/25	Total
£m	£m	£m		£m	£m	£m	£m
		80.6		84.0	84.2	87.5	255.7
		(0.6)		(1.8)	0.0	0.0	(1.8)
					(1.0)	(2.3)	(3.3)
		(0.6)		(1.8)	(1.0)	(2.3)	(5.1)
78.0	80.9	80.0		84.3	87.5	89.2	261.0
0.0	0.1	1.7		1.9	0.4	0.0	2.3
(77.9)	(81.7)	(80.5)		(82.2)	(83.2)	(84.9)	(250.3)
0.1	(0.7)	1.2		4.0	4.7	4.3	13.0
0.0	(0.1)	(1.7)		(1.9)	(0.4)	0.0	(2.3)
0.1	0.8	0.5		(2.1)	(4.3)	(4.3)	(10.7)

MTFS Movement since March 22

	2022/23	2023/24	2024/25	Total
	£m	£m	£m	£m
General Fund (shortfall)/ Surplus in March 22 MTFS	0.0	0.0	0.0	0.0
Favourable / (Adverse) movement in General Fund Balance	(2.1)	(4.3)	(4.3)	(10.7)
General Fund (shortfall)/ Surplus in June 22 MTFS	(2.1)	(4.3)	(4.3)	(10.7)

The MTFS that was approved in March 2022, includes £3.3m of unidentified Savings and Efficiencies which would need to fund investments in On Call Trainers and Fire Protection.

The impact of the inflationary pressures incorporated into the MTFS, would be to create an additional £10.7m budget gap.

4. Other Risks

In addition to the inflationary pressures outline in the paper, the following risks are associated with the MTFS.

- **Employers National Insurance** - On 7 September 2021, the government announced an increase in employer's national insurance contributions of 1.25% which is effective from April 2022. The government announced at the time that this plans to compensate public sector organisations for this increase, which will create an additional cost pressure of the Authority of £0.46m. The Services Grant which was announced as part of the 2022-23 local government settlement covered the funding of this increase, however this funding has only been confirmed for 2022-23. There is currently no certainty over the funding of this in future years.
- **Firefighters Pension Schemes** - National changes in employer contribution rates for firefighters' pension schemes came into effect from April 2019, following a revaluation of firefighters' pension schemes. The national average increase was material at 12.6% of pensionable pay, which equated to an additional cost burden to the Authority of £3.8m. The government has provided annual S31 grant of £3.5m to cover most of the additional cost pressure. It was announced in the 2021-22 final local government finance settlement agreement that from 2022-23, the pensions grant would be incorporated into baseline funding. This was not reflected in the 2022-23 provisional local government finance settlement.

There remains uncertainty around the financial impacts resulting around the remedies on the firefighter's pension scheme (McCloud/Sergeant, which includes an increase in Employer Contributions.

There is currently no information on what the cost of the remedy will be, and how this will be funded. The employer's contribution rates are expected to increase to take account of the cost of remedy. The next adjustment is expected 1 April 2024, in line with the latest actuarial valuation

- **Local Government Finance Settlement** – The local government finance settlement is for one year. The short-term nature of this settlement means that there is uncertainty and risk in the medium term over funding levels.
- **Capital Program** – The current economic situation could also impact the Capital Program, and in particular the cost of the capital projects. It will be important to keep the Capital Program under close review to ensure its affordability.