THIS PAPER RELATES TO ITEM 5

ON THE AGENDA

CLACKMANNANSHIRE COUNCIL

Report to: Clackmannanshire Council

Date of Meeting: 20th August 2026

Subject: Budget Strategy and MTFS Update

Report by: Chief Finance Officer

1.0 Purpose

1.1 The purpose of this report is to provide Council with a quarterly update on the implementation of the approved Budget Strategy and Medium Term Financial Strategy (MTFS), the developing financial outlook for 2027/28 and progress made in preparing the 2027/28 Budget. The report updates Members on the actions being taken to address the Council's significant financial challenges and support long-term financial sustainability. It also seeks approval of a Financial Resilience Framework which will complement the MTFS by providing a structured approach to assessing, monitoring and reporting the Council's financial resilience over the medium to long term.

2.0 Recommendations

2.1 Council is asked to:

2.1.1 note the extremely challenging financial position and financial risks faced by the Council and the mitigations being put in place to manage these risks (paragraphs 3.1 and 3.9);

2.1.2 note the indicative funding gap of £10.096m in 2027/28 rising to £24.462m by 2031/32 (paragraph 3.2);

2.1.3 note the update on the Medium Term Financial Strategy (MTFS) (paragraph 3.10);

2.1.4 note the worsening financial position of the Health and Social Care Partnership and the potential for the Council to be asked to make additional financial contributions in 2026/27 which would add to the indicative budget gap for 2027/28 (paragraph 3.11);

2.1.4 approve the proposed Financial Resilience Framework as set out in Section 4 and example Dashboard included within Appendix A, and agree that officers will develop and populate the Financial Resilience Dashboard, with the first report on the Council's financial resilience to be presented alongside the next Budget Strategy and MTFS update, and

2.1.5 note progress made in implementing the approved Budget Strategy and preparations for the 2027/28 Budget since May 2026 (section 5).

3.0 Medium Term Financial Strategy Update

3.1 The Council continues to operate within a highly challenging financial environment, driven by flat funding, increasing demand for services (particularly in Education & Social Care), inflationary pressures and limited financial flexibility.

3.2 Following the setting of the 2026/27 budget, the indicative funding gap for 2027/28 remains at £10.096m, rising to a cumulative £24.462m by 2031/32.

3.3 The Council continues to address its financial challenges through the three-pronged approach set out in the MTFS, focused on expenditure reduction, income generation and transformational change. Since approval of the 2026/27 Budget, work has progressed across each of these areas with activity focused on identifying recurring solutions capable of reducing the future funding gap.

3.4 In terms of expenditure, savings of £3.620m were agreed as part of the 2026/27 budget at the Council's budget setting meeting in February 2026. However, the scope for further efficiencies is increasingly constrained given that approximately c£70m of cumulative savings have already been delivered over recent years.

3.5 Income measures include a 5.6% increase in Council Tax for 2026/27, an inflationary 4% increase in discretionary charges, above inflation increases in selected areas and the introduction of new charges, alongside ongoing work to develop a refreshed Investment Strategy to maximise income opportunities.

3.6 Central to the delivery of the MTFS is the Council's transformation programme. Transformation activity, including digital and data investment, workforce and asset strategies, service redesign and partnership working are critical to delivering the scale of change required to reduce expenditure, support income generation and manage demand.

3.7 During the first quarter of 2026/27, early budget work has focused on reviewing previous savings proposals in the current environment, identifying new opportunities for savings, assessing emerging budget pressures and reducing reliance on one-off measures in future years.

3.8 Progress has also been made in advancing a number of the Council's transformation initiatives including digital and data projects, workforce planning activity, property and asset reviews and collaborative programmes through the Transformation Through Collaboration initiative with Falkirk and Stirling Councils. These initiatives remain critical to the delivery of the MTFS.

3.9 Since approval by Council in February, the Target Operating Model (TOM), has progressed through its immediate implementation phase. The revised organisational structure is now in place and senior leadership appointments are complete. Work is now underway to embed new ways of working and align organisational resources to strategic outcomes.

3.10 Progress continues across the projects within the Transformation Through Collaboration programme, with business case development advancing across a number of workstreams. The Housing project has moved into a detailed review phase to explore opportunities for greater collaboration across the three councils, supported by specialist resources approved by the Board. Work is also progressing on the joint procurement of IT equipment for schools, with officers from each council now leading the development of project scope and proposals. In addition, the Board has agreed to extend the programme to include Additional Support Needs (ASN) Services and Regulatory Services, with initial scoping activity now underway. Funding has also been approved to support organisational development, HR implications and process mapping requirements across the programme. Governance and engagement arrangements continue to develop, with updates provided to the Joint Staff Forum and elected members across all three councils, reflecting the programme's growing scale and ambition.

3.11 The Quarter 1 Revenue Budget Monitoring position is currently being prepared and will be reported to the Audit & Scrutiny Committee in October 2026. Whilst the overall position remains subject to completion of that exercise, the IJB is reporting a significant financial challenge, with a forecast overspend of £19.7m before savings and a revised recovery requirement of £13.1m, increased from £8.9m, following a reduction in the level of savings considered achievable in 2026/27. The IJB has acknowledged that operational savings alone are unlikely to close the remaining gap and that consideration may need to be given to the use of reserves and potential additional partner contributions. This creates a significant financial risk for the Council, as any requirement for additional partner funding would increase the Council's own budget gap and medium-term financial challenge. Officers are working closely with HSCP colleagues to understand the potential implications, identify mitigating actions and support the development of a sustainable recovery plan. The outcome of this work will be reflected in future budget monitoring reports and updates to the MTFS.

3.12 In addition to the risks associated with the IJB financial position outlined above, the MTFS continues to be set against a backdrop of significant ongoing pressures and risks including:

- Rising service demand, particularly in Social Care and Education;
- Continued inflationary increases on goods and services;
- Workforce pressures including pay and recruitment and retention challenges;
- Low uncommitted reserves (c.£3.6m / 2%) limiting resilience, and
- Limited local income-raising capacity.

3.13 To manage these pressures, the Council has a range of mitigations in place, including:

- Financial Controls and Governance through continued spending restraint and recruitment controls, strengthened budget monitoring and accountability, a track record of savings delivery and ongoing focus on operational underspends and financial discipline.

- Strategic Financial Management through prudent use of reserves that are prioritised to focus on supporting sustainability and development of a Financial Resilience Framework to strengthen long term planning and scenario modelling.

- Transformation and Service Redesign through delivery of the Be the Future transformation programme including digital and data transformation, Workforce and Asset strategies - TOM and Partnership and Collaborative delivery models - Strive, Transformation Space, Transformation Through Collaboration project with Falkirk and Stirling Councils and wider national initiatives.

- Income and Funding Activity including continued development of income generation approaches and development of the Investment Strategy and exploration of income opportunities (within recognised local constraints).

- External Engagement through the Scottish Government, COSLA and national partners to highlight the Council's financial challenges and seek solutions, particularly on systemic issues.

3.14 Overall, while the MTFS provides a clear framework for addressing the financial challenge, the scale of the funding gap and reliance on one-off measures highlight the need for sustained and transformational action to deliver long-term financial sustainability. Ongoing updates on the funding gap, savings delivery, income generation and implementation of mitigation measures will continue to be reported to Council to ensure appropriate oversight and timely intervention.

4.0 Financial Resilience Framework

4.1 Purpose

4.1.1 As part of the approved MTFS, Council agreed that further work should be undertaken to strengthen the Council's approach to monitoring and managing long-term financial sustainability. One of the key actions identified was the development of a Financial Resilience Framework to sit alongside the MTFS and provide a more structured approach to assessing, monitoring and responding to financial risks.

4.1.2 The proposed framework is intended to provide Members and officers with greater clarity regarding what financial resilience means for the Council, how it can be assessed and monitored over time, and the actions that may be required where indicators suggest increasing financial risk.

4.1.3 The framework also responds to increasing expectations from External Audit, CIPFA and national scrutiny bodies that local authorities can demonstrate not only balanced annual budgets, but also evidence of longer-term financial resilience, sustainability and going concern arrangements.

4.2 Definition of Financial Resilience

4.2.1 For the purposes of this framework, financial resilience can be defined as:

"The Council's ability to maintain financial sustainability and continue to deliver essential services by anticipating, absorbing and responding effectively to financial pressures and unforeseen events."

4.2.2 This extends beyond achieving in-year budget balance and focuses on the Council's capacity to:

- Deliver a sustainable financial position over the medium to long term;
- Withstand unexpected shocks to income, demand or costs, and
- Adapt its operating model in response to changing circumstances.

4.3 Why a Financial Resilience Framework is Required

4.3.1 The Council continues to operate within an increasingly challenging financial environment characterised by growing demand for services, continuing uncertainty around future funding levels, inflationary pressures and workforce challenges. Whilst the MTFS provides the strategic approach for addressing these issues, there is a need for a complementary framework that allows the Council to assess whether sufficient resilience exists to manage these pressures over time.

4.3.2 The Council's financial challenges are compounded by the limited capacity to generate significant new income locally and the finite nature of reserves. As a result, maintaining financial resilience requires a clear understanding of emerging risks and the ability to take corrective action at an early stage.

4.3.3 The Council has recognised this issue through the inclusion of "Insufficient Financial Resilience" within the Corporate Risk Register as a key strategic risk. The proposed framework will support management and governance arrangements by providing a consistent method for assessing and reporting financial resilience.

4.4 Financial Resilience Framework Overview

4.4.1 The proposed framework provides a structured approach to assessing, monitoring and managing financial resilience and is set out in the diagram below.

4.4.2 The framework has been designed to bring together the key elements that contribute to the Council's overall financial resilience. It establishes a clear link between the Council's strategic financial objectives, the risks and pressures facing the organisation, the indicators used to assess resilience and the governance arrangements through which emerging risks are monitored and managed. The framework is intended to complement existing financial monitoring and risk management arrangements rather than duplicate them.

Financial Resilience Framework Model

PURPOSE & DEFINITION

Clear definition of financial resilience and link to MTFS

STRATEGIC CONTEXT & RISKS

Demand pressures, funding constraints, workforce challenges

CORE RESILIENCE PILLARS

- Financial Sustainability
- Reserves & Balances
- Liquidity & Cash Flow
- Cost Base & Demand
- Income & Funding
- Delivery Capacity & Transformation

METRICS & INDICATORS (RAG RATED)

Quantitative and qualitative measures of resilience

SCENARIO PLANNING & STRESS TESTING

Assessment of impact of financial shocks and risks

RESPONSE & MITIGATION

Defined actions, triggers and escalation routes

GOVERNANCE & MONITORING

Regular reporting and integration with MTFS and risk

CONTINUOUS IMPROVEMENT & TRANSFORMATION

Ongoing development and alignment with transformation

4.5 Core Components of the Framework

Financial Resilience Pillars

4.5.1 The framework is structured around six core resilience pillars which collectively provide a comprehensive assessment of the Council's overall financial position and ability to respond to future challenges:

- **Financial Sustainability** – considers the Council's projected budget gap and ability to deliver savings within the MTFS;
- **Reserves and Balances** – focuses on the adequacy and sustainability of available reserves, recognising that these are finite resources;
- **Liquidity and Cash Flow** – assess the Council's ability to meet its short-term financial commitments and maintain sufficient financial flexibility;
- **Cost Base and Demand** – considers the alignment between service demand, costs and available resources, recognising the increasing pressures within key services;
- **Income and Funding Resilience** – evaluates the diversification and sustainability of income streams and the Council's ability to maximise available funding opportunities, and
- **Delivery Capacity and Transformation** – considers the Council's ability to deliver savings, transformation programmes and service redesign necessary to achieve long-term sustainability.

4.5.2 **Metrics and Indicators**

Each resilience pillar will be supported by a set of key indicators and measures that together will form the Financial Resilience Dashboard. The Dashboard will provide Members with a structured assessment of financial resilience using a Red/Amber/Green (RAG) reporting methodology.

The Indicators will comprise a combination of financial measures, performance measures and demand indicators. Examples may include the level of uncommitted reserves, delivery of savings targets, projected funding gaps, borrowing and liquidity measures, transformation programme delivery and demand trends within key services.

An example of the Dashboard is provided at Appendix A. The dashboard, indicators, thresholds and RAG assessments will be developed and refined during 2026/27 to those relevant to the Council, informed by benchmarking, best practice and data availability. The completed dashboard will be presented to Council alongside future Budget Strategy and MTFS updates.

4.5.3 **Scenario Planning and Stress Testing**

The framework will strengthen the Council’s forward planning by incorporating scenario modelling, allowing for assessment of the impact of:

- Variations in Scottish Government funding;
- Demand increases in key services;
- Inflation, and
- Pay pressures.

4.5.4 **Response and Mitigation**

Clear response mechanisms will be defined, including:

- Early warning triggers where resilience indicators deteriorate;
- Agreed escalation routes, and
- Actions aligned to the MTFS to address emerging financial pressures.

4.5.5 **Governance and Monitoring**

The framework will be embedded within existing governance arrangements and reported through Budget Strategy Update reports to Council.

4.6 Next Steps

4.6.1 Subject to Council approval, the Financial Resilience Framework will enhance the Council's financial governance arrangements by providing a clear methodology for assessing, monitoring and reporting financial resilience, supporting greater transparency and informed decision-making.

4.6.2 Officers will undertake further development of the Financial Resilience Dashboard, including refinement of indicators, reporting thresholds and governance arrangements to ensure they are meaningful, measurable and aligned with the Council's strategic objectives.

4.6.3 A populated dashboard, together with the first formal assessment of the Council's financial resilience against the approved framework, will be reported alongside the next Budget Strategy and MTFS update.

5.0 Budget 2027/28 – Progress Update

5.1 Since approval of the Budget Strategy in May 2026, elements of the planned budget development work have progressed, however progress has not been at the pace originally envisaged. During the first quarter of 2026/27, significant officer capacity across the organisation, including senior leadership and corporate support services, was redirected to support the emergency response to the Coalsnaughton incident. This was both necessary and appropriate given the scale and significance of the incident and its impact on residents and communities.

5.2 While this has inevitably impacted aspects of the budget development programme, governance arrangements established by Council have remained in place and priority work has continued where possible. As the incident response moves from the emergency phase into longer-term recovery arrangements, it is anticipated that recovery activity will continue to require a significant level of officer involvement and commitment over the coming months. As a consequence, the budget development timetable may be adjusted to reflect these competing priorities whilst still maintaining the objective of presenting a balanced and sustainable budget for 2027/28.

5.3 The Budget Working Group has met as planned since May 2026 and has maintained oversight of the budget process, the developing financial outlook and emerging risks. In addition, a Strategy session was also held with the Admin Group in June discussing the budget approach. The Budget Challenge Session scheduled for June has been postponed and will be rescheduled to September with the Budget Challenge Session 2 also rescheduled from September to October. As a consequence the Budget Challenge Briefing for Members and TU's scheduled for August will also be rescheduled.

5.4 To support the effective development, governance and monitoring of savings and budget pressure proposals, a dedicated SharePoint-based Budget Hub has been developed. The site will provide a single repository for all savings, income generation and budget pressure business cases, supporting improved version control, auditability and transparency throughout the budget process. The system also incorporates workflow functionality to facilitate review and approval by Finance, ensure consistency of information, and provide a clear record of proposal development and decision-making. The site will support officers, senior management and Members by providing a more structured and efficient approach to managing budget proposals and associated supporting documentation. A presentation on the new sharepoint site was given to the Extended Leadership Group in July and a session is also being arranged with the Finance team.

5.5 The newly established Capital Programme Board met for the first time in June where it reviewed the 2025/26 final outturns and the monitoring arrangements for 2026/27. An action log was prepared and circulated after the meeting. The Board is scheduled to meet again in August to review the 1st Quarter capital outturn.

5.6 Work has also continued to review the financial assumptions that underpin the Medium Term Financial Strategy, including consideration of emerging demand pressures, inflationary impacts, workforce costs and funding assumptions. Following this assessment there has been no new or updated information that requires any change to the indicative gap of £10.096m previously reported. Further review of these assumptions will take place during the autumn if additional information becomes available from the Scottish Government and on national pay negotiations.

5.7 Preparation of the Housing Revenue Account (HRA) Revenue and Capital Budgets for 2027/28 has commenced. Progress has similarly been affected by the diversion of resources to emergency response and recovery activity. However, the stock condition survey programme is underway that will inform future capital investment planning and the development of the long-term Housing Capital Programme and future budget decisions.

5.8 Engagement with COSLA, the Scottish Government and partner authorities through the Coalsnaughton incident continues to highlight both the Council's financial challenges and the wider impact that significant unforeseen events can have on already constrained local authority resources. Specific budget engagement is expected to be undertaken through the 2nd quarter of the year following Summer recess and further updates will be provided to Members throughout the budget development process.

5.9 The financial outlook for the Council remains extremely challenging. Whilst progress on some aspects of budget development has been slower than anticipated, this has been due to the exceptional circumstances associated with the response to the Coalsnaughton incident. As the Council moves into the recovery phase, revised arrangements and timescales will be implemented to ensure that sufficient work is undertaken to support development of the 2027/28 Budget and the longer-term objectives of the Medium Term Financial Strategy.

6.0 Sustainability Implications

6.1 There are no direct environmental sustainability implications arising from this report.

7.0 Resource Implications

7.1 *Financial Details*

7.2 The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate.

Yes ☑

7.3 Finance has been consulted and has agreed the financial implications as set out in the report. Yes ☑

7.4 *Staffing* - There are no direct staffing implications arising from this report.

8.0 Exempt Reports

8.1 Is this report exempt? Yes ☐ (please detail the reasons for exemption below) No ☑

9.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities** (Please double click on the check box ☑)

Clackmannanshire will be attractive to businesses & people and ensure fair opportunities for all ☐

Our families; children and young people will have the best possible start in life ☐

Women and girls will be confident and aspirational, and achieve their full potential ☐

Our communities will be resilient and empowered so that they can thrive and flourish ☐

(2) Council Policies

Complies with relevant Council Policies ☐

10.0 Impact Assessments

10.1 Have you undertaken the required equalities impact assessment to ensure compliance with the public sector equality duty and fairer Scotland duty? (All EFSIAs also require to be published on the Council's website)

Yes ☐ No ☑

10.2 There are no direct impacts resulting from the content of this report.

11.0 Legality

11.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes ☑

12.0 Appendices

12.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix A- Financial Resilience Framework

13.0 Background Papers

13.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

- General Services Revenue and Capital Budget 2026/27
- Medium term Financial Strategy
- Budget Strategy and Medium Term Financial Strategy Update - May 2026

Author(s)

NAME	DESIGNATION	TEL NO / EXTENSION
Lindsay Sim	Chief Finance Officer	2022

Approved by

NAME	DESIGNATION	SIGNATURE
Nikki Bridle	Chief Executive	[redacted]

Financial Resilience Dashboard

The Council's proposed Financial Resilience Dashboard is set out below. This is a new tool designed to bring together a snapshot of the Council's overall financial position, key risks and a measure of its' resilience over the medium to longer term.

The headline position is shown at the top of the dashboard presenting whether overall financial resilience is high, medium or low risk, along with the trend over time. This position will highlight the scale of the financial challenge as presented in the Medium Term Financial Strategy.

In simple terms, the overall position will be driven by three main factors:

- the anticipated funding gap,
- level of reserves and previous reliance on reserves to support the revenue budget, and
- the scale of demand and cost pressures across core services.

Below that headline, the dashboard breaks resilience down into six areas, including sustainability, reserves, demand, income, and the Council's capacity to deliver change.

This will allow us to move beyond a narrative description of the financial position and instead provide a clearer, more transparent and measurable assessment of risk, using the Red, Amber, Green indicators for each section.

Importantly, this is not just about describing the position. It is designed to support decision-making. It will highlight where the pressure points are, where mitigations are in place, and where further action or choices may be required.

The Financial Resilience Dashboard will evolve over time. The indicators will be reviewed and refined and this will be reported regularly alongside within the Budget Strategy Reports and updates to the MTFS. This will ensure there is a consistent and transparent view of financial resilience.

Financial Resilience Dashboard

RAG Definitions

Rating	Definition
Red	Significant financial risk. Immediate action required.
Amber	Emerging or manageable risk. Close monitoring required.
Green	Stable position. Within acceptable limits.

Overall Financial Position

Overall Financial Resilience Status	HIGH RISK, MEDIUM RISK, STABLE
Direction of Travel	Improving/ Stable/ Deteriorating
Key Issue	

Financial Sustainability

Indicator	Current Position	RAG	Trend	Commentary
Medium-term funding gap	£X.Xm		↑→↓	
Savings delivery	XX%		↑→↓	
One-off funding reliance	£X.Xm		↑→↓	

Reserves and Balances

Indicator	Current Position	RAG	Trend	Commentary
Uncommitted reserves	£X.Xm		↑→↓	
Use of reserves	£X.Xm		↑→↓	
Reserves %	X%		↑→↓	

Liquidity and Cashflow

Indicator	Current Position	RAG	Trend	Commentary
Cash flow	Good, Adequate, Poor		↑→↓	
Borrowing	£X.Xm		↑→↓	

Cost Base and Demand

Indicator	Current Position	RAG	Trend	Commentary
Demand pressures	£X.Xm		↑→↓	
Overspends	£X.Xm		↑→↓	
Cost flexibility	High, Medium, Low		↑→↓	

Income and Funding Resilience

Indicator	Current Position	RAG	Trend	Commentary
Income performance	XX%		↑→↓	
External funding	£X.Xm		↑→↓	
Grant dependency	High, medium, Low		↑→↓	

Delivery Capacity and Transformation

Indicator	Current Position	RAG	Trend	Commentary
Savings capacity	High, Medium, Low		↑→↓	
Workforce stability	Strong, Stable, Weak		↑→↓	
Transformation delivery	XX%		↑→↓	