CLACKMANNANSHIRE COUNCIL	**THIS PAPER RELATES TO ITEM 5 ON THE AGENDA**

Report to: Clackmannanshire Council

Date of Meeting: 1st October 2026

Subject: Budget Strategy and MTFS Update – October 2026

Report by: Chief Finance Officer

1.0 Purpose

1.1 The purpose of this report is to provide Council with an update on the implementation of the approved Budget Strategy and Medium Term Financial Strategy (MTFS), the developing financial outlook for 2027/28 and progress in preparing the 2027/28 Budget. It also provides an update on development of the Financial Resilience Dashboard and presents illustrative low, medium and high financial planning scenarios to demonstrate the sensitivity of the projected funding gap to changes in key assumptions.

2.0 Recommendations

2.1 Council is asked to:

2.1.1 note the extremely challenging financial position and the financial risks and uncertainties set out in section 3;

2.1.2 note the current medium scenario indicative funding gap of £10.096m in 2027/28 rising to a cumulative £24.462m by 2031/32 (paragraph 3.2, Table 1);

2.1.3 note that the published medium scenario includes an assumed 10% annual Council Tax increase and that the 2027/28 indicative funding gap before any increase in Council Tax is £13.145m (paragraphs 3.4 & 3.5);

2.1.4 note the impact on the indicative gap from applying Low and High scenarios to assumptions (paragraphs 3.8-3.10) noting that that all scenarios are planning illustrations rather than forecasts and will be refreshed when the Scottish Government settlement, pay information and updated service pressures are known;

2.1.5 note progress on development of the Financial Resilience Dashboard, including refinement of indicators, data sources, thresholds and governance arrangements (section 4);

2.1.6 note progress made in implementing the approved Budget Strategy and preparations for the 2027/28 Budget (section 5), and

2.1.7 note the continuing financial risk reported by the Integrated Joint Board (IJB) of £19.736m overspend before savings and an increased recovery plan requirement of £13.111m (paragraph 5.7).

3.0 Medium Term Financial Strategy Update

3.1 The Council continues to operate within a highly challenging financial environment, driven by uncertainty over future grant funding, increasing demand for services, particularly Education and Social Care, pay and contractual inflation, and limited financial flexibility. The MTFS continues to be managed through the three-pronged approach of reducing expenditure, maximising income and transforming service delivery. The scale and recurring nature of the projected gap means that the Council will require a coordinated package of sustainable measures rather than reliance on any single source of expenditure reduction, income or one-off support.

3.2 The current medium planning scenario remains based on net expenditure of £190.703m and net funding of £180.607m for 2027/28, producing an indicative gap of £10.096m. The cumulative gap rises to £24.462m by 2031/32.

Table 1 – Indicative funding gap 2027/28 to 2031/32

	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	2031/32 £000
Net expenditure	190,703	197,507	205,323	213,259	221,483
Net funding	(180,607)	(183,913)	(187,961)	(192,323)	(197,021)
Cumulative indicative funding gap	10,096	13,594	17,362	20,936	24,462
Annual indicative funding gap	10,096	3,498	3,768	3,574	3,526

Assumptions within the Current Indicative Gap

3.3 The principal assumptions included within the current medium scenario are set out below. These assumptions are not predictions. They provide a consistent baseline for planning and will be updated as firm information becomes available.

Table 2 – Assumptions

Assumption	Medium scenario	Indicative financial effect / sensitivity
Pay award	3% each year	£3.6m included for 2027/28; each 1% is approximately £1.200m.
Demand and contractual pressures	£2.5m each year, equivalent to approximately 1.3%	Each 1% is approximately £1.923m. The provision is primarily for contractual inflation and critical demand pressures.
Core Scottish Government grant	Flat cash	No growth included. A 1% movement is approximately £1.266m.

Assumption	Medium scenario	Indicative financial effect / sensitivity
Council Tax	10% increase each year	£3.049m included for 2027/28; each 1% is approximately £0.305m.
Savings and transformation	No unidentified future savings assumed in the gap	Savings reduce the gap only when sufficiently developed and approved.
One-off resources	No assumption that reserves provide a recurring solution	One-off support falls out in the following year and therefore does not address the recurring gap.
Capital financing	Current approved financing assumptions	Changes in borrowing, interest rates or programme timing may affect revenue costs.
HSCP / IJB	No additional partner contribution added	Any additional contribution would increase the Council gap when sufficiently certain and quantifiable.

3.4 The assumptions remain highly sensitive. The Council Tax assumption is particularly significant because a 10% increase contributes £3.049m to the 2027/28 funding position. This does not represent a decision by Council and is used only as a planning assumption.

3.5 Removing the assumed 10% Council Tax increase from the 2027/28 funding position increases the gap from £10.096m to £13.145m. This provides greater transparency over the underlying expenditure and funding imbalance before a local taxation decision is made.

Table 3 – Council Tax

2027/28 position	£000
Published medium scenario gap	10,096
Add back assumed 10% Council Tax income	3,049
Gap before any Council Tax increase	**13,145**

3.6 For illustration, each 1% Council Tax increase generates approximately £0.305m. The table below shows the remaining gap on various levels of Council tax. These figures are indicative and assume a broadly linear yield.

Table 4 – Council Tax Increase Scenarios

Illustrative Council Tax increase	Estimated income £m	Remaining 2027/28 gap £m
0%	0.000	13.145
5%	1.524	11.621
8%	2.439	10.706
10%	**3.049**	**10.096**
12%	3.658	9.487

Illustrative Council Tax increase	Estimated income £m	Remaining 2027/28 gap £m
15%	4.573	8.572

Scenario Planning – Low, Medium and High

3.7 Consistent with the approach used in the 2025 MTFS, three scenarios have been prepared to show how the funding gap could move if the key assumptions change. The scenarios are illustrative sensitivity tests and do not replace the detailed bottom-up MTFS model.

Table 5 – Low Medium and High Scenarios

Assumption	Low pressure	Medium / current	High pressure
Pay award	2%	3%	4%
Demand and contractual pressures	0.8% / c.£1.5m	1.3% / £2.5m	1.8% / c.£3.5m
Core grant movement	+1%	0% / flat cash	-1%
Council Tax planning assumption	10%	10%	10%
Other assumptions	As current model	As current model	As current model

3.8 Applying the current 2027/28 sensitivity values to the three scenarios gives the following indicative range. The low and high figures are a simple sensitivity overlay to the published medium scenario and should not be read as a full reforecast.

Table 6 – Indicative Gap – Low, Medium and High Scenarios

Scenario	2027/28 indicative gap £m	Movement from medium £m
Low pressure	6.630	(3.466)
Medium / current	10.096	-
High pressure	13.562	3.466

3.9 The low scenario assumes lower pay and demand pressures together with 1% growth in core grant. The high scenario assumes a 1% higher pay award, a 0.5% increase in demand and contractual pressures and a 1% reduction in core grant. The calculations use the current sensitivities of £1.200m for pay, £1.923m per 1% for demand and £1.266m per 1% for grant. These movement would compound over the MTFS period impacting the indicative gap upto 2031/32.

3.10 Before any Council Tax increase, the equivalent 2027/28 range would be £9.679m in the low scenario, £13.145m in the medium scenario and £16.611m in the high scenario. This demonstrates both the scale of the underlying challenge and the limited capacity of Council Tax alone to close the gap. The analysis also demonstrates that, under each scenario, a substantial recurring gap would remain after applying the illustrative Council Tax assumption

4.0 Financial Resilience Dashboard – progress update

4.1 Council previously approved the Financial Resilience Framework and agreed that a more detailed dashboard would be developed around six pillars: financial sustainability; reserves and balances; liquidity and cash flow; cost base and demand; income and funding resilience; and delivery capacity and transformation.

4.2 Initial development work has focused on refining the proposed indicators and identifying the most appropriate data sources, reporting frequency, ownership and RAG thresholds. The intention is to ensure that the dashboard adds value to existing budget monitoring and risk reporting rather than duplicating it, and that it supports early identification and escalation of emerging financial pressures.

4.3 Work in progress includes:

- mapping the proposed indicators to the six resilience pillars and the strategic risk on insufficient financial resilience;
- identifying a concise core set of measures covering the budget gap, reserves, savings delivery, in-year forecast, liquidity, borrowing and financing costs, income collection, demand trends and transformation delivery;
- assessing data availability, quality and frequency so that indicators can be updated consistently;
- developing proportionate RAG thresholds and early-warning triggers, supported by narrative explaining trend, risk and required action;
- clarifying indicator ownership, escalation routes and links to the MTFS, budget monitoring, transformation governance and the Corporate Risk Register; and
- planning member engagement before the first populated dashboard is presented.

4.4 The work is not yet sufficiently complete to present a fully populated and assured dashboard. Further engagement and testing are required to ensure that thresholds are meaningful in the Council context and that the dashboard provides a balanced assessment rather than relying on a single headline RAG status. A populated dashboard will therefore be brought forward once this work and member briefing have been completed.

5.0 Budget 2027/28 – Progress Update

5.1 Budget development has moved into a more intensive design phase. The scale of the challenge means that the established process of reviewing a series of discrete savings proposals will not, on its own, be sufficient. The approach is therefore being broadened to consider the shape of a sustainable and coherent service offer, linked to statutory responsibilities, priorities, transformation and the Target Operating Model.

5.2 Initial officer proposals have been grouped under the themes of alternative delivery models and commissioning, asset strategy, digital, external funding, income and charging, service redesign, Transformation Through Collaboration and workforce. Place and equalities dimensions are also being incorporated. Proposals are being reviewed to distinguish recurring savings from one-off cash measures and to assess deliverability, lead-in time and dependencies.

5.3 The immediate focus is to develop options with further detailed business case development and validation over the coming months. This timetable is demanding and will require dedicated officer capacity alongside delivery of current services and other transformation commitments.

5.4 The SharePoint-based Budget Hub remains the central repository for savings, income and pressure proposals and is being used to strengthen version control, auditability and workflow. The project plan and engagement plan are also being aligned to minimise duplication between the Budget Working Group, officer challenge and consultation activity.

5.5 Preparation of the Housing Revenue Account (HRA) Revenue and Capital Budgets for 2027/28 remains in progress. The stock condition survey programme is progressing on track and will inform future capital investment planning and the development of the long-term Housing Capital Programme and future budget decisions.

5.6 Development of the General Services Capital Programme for 2027/28 and updates to the longer-term capital plan is also progressing. Services have been invited to submit new capital investment bids by mid October, supported by the required business case information, including strategic fit, estimated costs, delivery timescales, funding options, revenue consequences and key risks. A detailed review of the existing capital programme and new bids will be undertaken during October and November. This will include consideration of project affordability, deliverability, slippage, emerging cost pressures, alignment with Council priorities and the scope to rephase or reprioritise investment within the available funding envelope. The outcome of this review will inform the updated capital programme presented as part of the 2027/28 budget-setting process.

5.7 The financial position of the Clackmannanshire and Stirling Health and Social Care Partnership remains a significant risk to the Council's financial planning. At Quarter 1, the Integration Joint Board reported a forecast deficit of £19.736m before savings. The level of savings considered achievable during 2026/27 has reduced from £10.815m to £6.625m, increasing the required Recovery Plan from £8.858m to £13.111m. The IJB has recognised that operational savings alone are unlikely to close the remaining gap and that, after all reasonable savings options have been exhausted, the use of available IJB reserves and further consideration of partner contributions through the agreed risk-sharing arrangements may be required.

5.8 In response, the IJB has approved strengthened financial recovery and governance arrangements, including development of an eight-month turnaround plan, executive-led oversight of the Recovery Plan and monitoring through the Finance, Audit and Performance Committee, with overall oversight retained by the IJB. The strengthened arrangements are intended to provide clearer accountability, partner involvement and assurance through fully costed, activity-based savings plans with named leads, milestones, expected benefits, risks and dependencies. Weekly delivery meetings and formal monthly reporting are also proposed to provide visibility of savings delivered and forecast, schemes that are on track or at risk, corrective action, decisions required and the residual funding gap. Council officers will continue to work with HSCP and partner organisations to monitor delivery, assess the potential use of IJB reserves and quantify any residual requirement for partner support. Any confirmed impact on the Council will be incorporated into future budget monitoring and MTFS updates.

5.9 Engagement with the Scottish Government has commenced and officers continue to highlight the Council's financial challenges and the potential impact on service delivery through further reductions in expenditure.

5.10 The current gap and scenario analysis will continue to be refreshed as further information becomes available, including the Scottish Budget and local government finance settlement, national pay negotiations, updated demand pressures, the in-year financial position and any quantified implications arising from the HSCP. Any material movements will be reported to Council.

5.11 The financial outlook remains extremely challenging. The work now being undertaken is intended to move from a list of individual savings towards a coherent package that balances the 2027/28 Budget while also supporting longer-term service and financial sustainability. Given the level of the recurring gap, a combination of expenditure reduction, income, transformation and, where appropriate, carefully managed one-off resources will be required. Any use of one-off resources will require to be affordable, time-limited and linked to a clear and deliverable route to achieving a recurring balanced position. One-off resources should not be used to defer unidentified recurring measures without an agreed transition plan.

6.0 Sustainability Implications

6.1 There are no direct environmental sustainability implications arising from this report. Individual budget proposals will be assessed as required as they are developed, including consideration of environmental, economic and social sustainability where relevant.

7.0 Resource Implications

7.1 *Financial Details*

7.2 The financial implications and planning assumptions are set out in sections 3 to 6. The scenarios are illustrative and do not constitute budget decisions. Final implications will depend on the funding settlement, pay awards, demand, Council Tax decisions and the approval and delivery of budget proposals.

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 decisions arising from this update. However, budget options may have staffing implications which will require appropriate consultation, impact assessment and governance as proposals are developed.

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. Equality and Fairer Scotland Impact Assessments will be undertaken for relevant budget proposals as they are developed.

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".

None

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
- Budget Strategy and Medium Term Financial Strategy Update – August 2026

Author(s)

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Approved by

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