
Report to Clackmannanshire Council

Date of Meeting: 26 February 2026

Subject: Budget Context and Outlook

Report by: Section 95 Officer

1.0 Purpose

- 1.1. This paper has been prepared by the Section 95 Officer in consultation with the Chief Executive and Monitoring Officer. It aims to provide information on the Budget context and outlook for the Council as it prepares to agree its General Services Revenue and Capital Budgets for 2026/27.
- 1.2. The paper has been prepared in support of the Council's proposed General Service Revenue and Capital Budget 2026/27 and aims to allow elected members to consider broad issues of financial resilience and sustainability ahead of taking its decisions.

2.0 Recommendations

It is recommended that Council notes the:

- 2.1. Background and context to the Council's socio-economic and systemic funding challenges, exacerbated by a largely population-based mechanism for distributing the Scottish Government Grant Income received (section 3)
- 2.2. Council's track record of delivering budget savings; collaboration, leveraging external resource and innovative transformation (section 4)
- 2.3. Financial outlook ahead of setting the Council's Budget and the need to maximise the value of permanent reductions in expenditure and increases in income wherever possible to deliver medium to longer term financial sustainability (section 4)
- 2.4. Financial outlook, residual risks and uncertainties should the 2026/27 General Services Revenue and Capital Budgets, proposed later in this Council agenda, be approved (paragraph 4.17 and section 4).

It is recommended that Council agrees to:

- 2.5. Prioritise, support and invest in the key activities being taken forward to mitigate the pressures (section 5) and to deliver service and financial sustainability
- 2.6. Continue to adhere to its Medium Term Financial Strategy (MTFS) and develop a Financial Resilience Framework (paragraphs 5.14 - 5.17)
- 2.7. Identify any further potential options it would like developed to mitigate current and future service and financial sustainability challenges in addition to the current activities summarised in section 5 of this report (paragraph 5.1).

3.0 Background and Context

- 3.1. Clackmannanshire is Scotland's smallest mainland authority when based on population (51,800) and experiences significant levels of demand, and complexity of need, for its services which trend beyond even the area's Upper Quartile deprivation levels. This means that on many demand-led indicators, such as domestic violence, levels of trauma, additional support needs and child protection referrals, the area's performance ranks amongst the highest in Scotland. This situation is exacerbated by funding levels which do not meet the costs of providing such vital services are not uplifted in line with inflation on an annual basis.
- 3.2. Clackmannanshire also experiences significant economic challenges, for instance high levels of worklessness, low job density (approximately two people for every job) and fewer and lower paid opportunities for employment, which is exacerbated by poor mobility/connectivity issues, and all of which contributes to significant poverty and inequality in the County.
- 3.3. Clackmannanshire has at the time of writing, a staffing headcount of 2,346 (including externally funded posts but excluding casual staff). Salary levels for managerial roles are amongst the lowest bandings in Scotland, making recruitment and retention a significant challenge given we are in direct competition for scarce resources with larger public sector bodies in the Forth Valley/Central Belt. Many staff have left, and continue to leave, the Council for better remunerated roles with significantly narrower spans of control and greater supporting resources than Clackmannanshire can offer. Remaining staff have to manage the same legislative and policy requirements as other council areas but without the resources and support. Services have been redesigned to improve efficiency and reduce duplication, but this means that specialist roles have been diluted. Despite all of this, Clackmannanshire has been driving a significant transformation agenda, leading on innovation both locally and nationally.

3.4 This principle also extends to administrative systems where the Council has a proportionately higher level of demand relative to both scale and deprivation, for instance Freedom of Information requests and SPSO complaints. Capacity benchmarking shows the Council to be the lowest in Scotland for almost the full range of support services (legal, HR, Communications), following significant budget reductions over a number of years. This same principle also applies across frontline service delivery such as in Planning and staffing levels in Education and Social work are the lowest in Scotland. As a consequence, there is a dual pressure of increased demand and reduced/low resources to respond, potentially adversely impacting service quality and customer experience.

3.5 The Council has delivered an average of 80% of planned savings and protected frontline service delivery for our most vulnerable citizens. However, over the past few years, the Council has experienced unprecedented financial pressures which are more acute for a small Council:

- The funding distribution mechanism, which is largely population-driven, in many respects results in a settlement for the Council which could be compared with that of the island councils without any of the potential levers.
- As a small Council, within an area of significant deprivation and need, there are not significant opportunities to generate additional income, for instance 1% of council tax generates circa £289K; the Council does not have revenue streams such as oil revenue or the ability to benefit significantly from local levies such as the visitor or parking levies.
- Additionally there is no material acknowledgement of the issues of scale and context in the current distribution mechanism in terms of the delivery of services to our residents: there is no equivalent to the islands allowance; needs-based indicators within the distribution do not reflect the variable contextual challenges; Clackmannanshire receives no benefit from the floor mechanism, and in 2026/27 the Council is contributing c£2m to the floor. In addition, the distribution does not take into account any minimum level of resourcing to deliver public services to a prescribed performance standard.

3.6 This snapshot of the Council's context, also highlighted as part of the 2025/26 budget setting process, is vital in understanding the financial challenges facing the Council area. The remainder of this paper sets out the service and financial sustainability challenge the Council area is facing alongside some of the priority work that is being taken forward to mitigate these challenges.

4.0 Financial Context and Outlook

- 4.1 The Council's current (2025/26) net revenue budget is £176m and the Gross Capital Budget is £34.9m (SG Capital grant £5.7m). The HRA Budget is £24.3m.
- 4.2 Since 2010, the Council has agreed £74m of savings. When considered in the context of the current operating budget of £176m, this is a significant reduction and means inevitably that there are few, if any, non-statutory efficiencies and policy areas which Council has not already considered or agreed.
- 4.3 Inevitably the Council has had to take a number of significant and difficult decisions since 2010 in support of financial sustainability, including but not exhaustively:
 - Several Community Asset transfers and community lease arrangements in respect of community assets such as a range of village halls across the County to promote community empowerment and unlock the potential of new funding streams whilst delivering cost reductions
 - The relocation of a primary school within an Academy following a five-year temporary relocation
 - Significant reductions made in a number of valued service areas, including refuse collection, Community Learning and Development, library and leisure provision and grounds maintenance, many of which place strains on other services and community wardens
 - Closure of two swimming pools
 - Significant reductions in senior managerial posts to protect frontline service delivery whilst delivering savings
 - The Council was amongst the first to renegotiate the working week with unions in 2014, reducing the working week to 35 hours and delivering a saving of just over £1m.
- 4.4 The Council has a long history of partnership working and collaboration including a significant Shared Service arrangement with Stirling Council to deliver Education and Social Work. These arrangements prevailed for several years before they ended. In addition, Clackmannanshire led on the Regional Improvement Collaborative with Falkirk, Stirling and West Lothian Councils for four years until funding ended.
- 4.5 Currently there are more than ten partnership arrangements in place with Stirling and Falkirk Councils covering a range of services including Social Care, School Transport, Trading Standards, Waste, Bridges and Lighting etc. More recently, the Council has also entered into a Collaboration project

with Falkirk Council to transform services and discussions are also taking place with Stirling Council to consider their potential involvement in this Transformation Through Collaboration work.

- 4.6 In recent years, as the options for non-statutory efficiencies and policy proposals has been diminishing, the Council has consciously deployed one off cash savings and utilised the benefit from service concessions and reserves to balance its budget to minimise the need to permanently/adversely impact on the delivery of statutory services. However, wherever possible the use of reserves has been minimised such as in setting the current year's Budget (2025/26), the Council utilised £0.346m of one-off general fund reserves to support the budget. The use of one-off reserves to achieve financial balance cannot continue indefinitely as reserves are a finite resource, reinforcing the need for future spending to be contained within the Council's core funding to ensure financial sustainability.
- 4.7 Delivering sustainability is not only delivered by reducing expenditure but also by maximising/ increasing income. The Council has been developing its Investment Strategy and has successfully levered financial and non-financial resources in respect of a range of priority projects and Transformation activities including from Sports Scotland, the Vardy Foundation, the Hunter Foundation and Scottish Government. This additional resource has been critical in ensuring that priority work has been appropriately supported and resourced. This is an activity which will continue to receive priority as part of the Council's Medium Term Financial Strategy and Investment Strategy (see section 5). Previous work has led to the mapping of all the community assets that exist across the area with the aim of trying to efficiently align more resource to improving outcomes for local communities.
- 4.8 There is an ongoing awareness of the critical need to secure service and financial sustainability which is linked directly to the agreement of the Council's Be the Future Transformation Programme in 2018. The Council's Be the Future programme has significant cross-party support and has been a unifying ambition for officers and members. A significant range of priority activities continue to be developed and implemented, and Council is regularly updated on progress in the regular Be the Future Update reports. The revised corporate priorities of Digital and Data Transformation, Asset Management, Workforce Planning and Transformation Through Collaboration (TTC) were agreed by Council in November 2025 and are also aligned with the investment priorities.
- 4.9 There are already demonstrable examples of progress as a consequence of our transformation work - bucking the national trend re the poverty-related attainment gap; independent evaluation of STRIVE previously suggested that savings across partners of £66m as a consequence of preventing people from requiring statutory intervention; increased automation and digital access to Council services.

4.10 Based on the 2024/25 Draft Financial statements, the Council has Uncommitted of reserves of £6.9 (£3.6m above the minimum 2% of net expenditure level) and Committed reserves of £16.2m (including reserves with restricted use).

4.11 In the current year and beyond, the Council continues to face significant financial pressure, particularly in relation to:

- projected overspends within the HSCP;
- wage and contract inflationary increases, and
- flat cash settlements.

In response, a programme of spending restraint has been implemented across all services, with recruitment limited to critical posts only, to reduce in-year expenditure wherever possible. Alongside these measures, the Council has also focused on building reserves to create the financial capacity required to support the Target Operating Model and broader transformation activity. These steps are essential to ensure that services can be delivered sustainably within the recurring resources available and to minimise the need for one-off interventions in future years.

4.12 Looking to 2026/27 and beyond, there is a significantly challenging position over the next 5 years with a further forecast £23.8m savings to find as shown below in Table 1.

Table 1 - Indicative Funding Gap 2026/27 to 2031/32 (pre budget setting)

	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	2031/32 £000
Net Expenditure	184,798	192,069	198,873	206,689	214,625	222,849
Net Funding	(179,076)	(182,004)	(185,450)	(189,651)	(194,183)	(199,067)
Cumulative indicative Funding Gap	5,722	10,065	13,423	17,038	20,442	23,782
Annual indicative Funding Gap	-	4,343	3,358	3,615	3,404	3,340

4.13 Separately on this Council agenda, a balanced budget for 2026/27 is proposed. It is critical in considering the budget that the underlying deficit between expenditure and income is addressed by agreeing permanent reductions in expenditure, and recurring income measures, minimising cash savings and minimising reliance on the use of reserves.

4.14 A gap of this level will be extremely challenging to close, as reserves are diminished and savings are becoming increasingly difficult to identify without cuts to service provision including statutory services. In year underspends also cannot be guaranteed to replenish reserves.

4.15 It is also important that the Council provides investment in those priority activities which aim to deliver service and financial sustainability and avoid the potential for short-termism in decision-making. The activities summarised in section 5 of this report reflect some of these necessary investment requirements. Given the scale of the current and future challenges this paper articulates, work will continue to identify further potential mitigations/ options which may in turn require investment.

4.16 The Council has a track record of taking difficult decisions when necessary and this continues to be required when considering the Budget for 2026/27 and for subsequent years.

4.17 Subject to approval of the proposed General Services Revenue and Capital Budget for 2026/27, the following key financial risks and uncertainties remain:

- **HSCP multi-year sustainability risk** – The 2025/26 projected overspend (c. £11m) is expected to have recurring implications into 2026/27 and beyond. Even with specific funding uplifts for 2026/27 (e.g., Real Living Wage; Free Personal Care), there is a material risk the IJB cannot balance without additional partner contributions and/or service redesign. Any additional contribution by the Council would potentially require an emergency budget which could include a review and release of committed reserves and/or additional savings within Council services. committed reserves to be reviewed. A significant joint recovery plan and commissioning/ demand-management actions, working in consultation with partners, are required to reduce future exposure.
- **Pay award** – the pay award for 2026/27 has been agreed as part of a two year deal. As pay awards have been trending above inflation for the last few years, the budget assumption for future years includes an assumed 3% increase which is also in line with the Scottish Governments Public Sector Pay award which averaged 3%. Anything above the assumed 3% would need to be funded from additional funds and would widen the budget gap in future years if not permanently funded.
- **Increase in demand for services** – demand for frontline services including Homeless, Child Care and specialist areas within Education and Learning have also been increasing. While some additional funds have been provided within the 2026/27 settlement, Clackmannanshire's high level of deprivation and need mentioned

above means there is a risk that this demand will continue to outweigh the funding provision. Additional funding also tends to be static year on year, not taking account of any increases for inflation adding to the financial gap year on year.

- **Reserves Balances** - with the use of reserves to support the budget in previous years, and the anticipated cost pressures mentioned above it is essential that Council continues to prudently manage and direct reserve balances to ensure that reserves are used to support activity including transformation, which prioritises financial sustainability and protect services.
- **Revenue-raising constraint risk** – The Council Tax base is relatively small; a 1% council tax rise delivers a limited yield of £289k, constraining the ability to close the budget gap through taxation alone. New local levy options are not likely to have any material impact given the council's local context.
- **National funding and policy risk** – The population-weighted distribution may not adequately reflect Clackmannanshire's need and complexity, and there is no minimum service baseline funding mechanism. Policy changes introduced in-year without full funding would increase financial pressures. Interest-rate and capital financing risk – Borrowing costs remain a sensitivity; upward movements would reduce headroom for services. Capital programme re-profiling and active treasury management will be used to mitigate affordability risks.
- **Future year budget gap** – the indicative gap for 2027/28 after setting the proposed budget for 2026/27 indicates a funding shortfall of £10.1m (5.6% of expenditure) rising to £24.5m by 2031/32. A gap of this size presents significant financial challenge that will likely require reductions to service delivery and/or staffing in the coming year. There are several of assumptions within these indicative figures including assumptions on pay inflation 3%, interest rates for borrowing, a Council tax increase of 10% and flat cash grant funding. Any variation in these assumptions can have a significant impact on the budget gap. It is critical that the position is monitored and assumptions and plans adjusted accordingly on a timely basis.

4.18 These risks and uncertainties will be reviewed on an ongoing basis and any significant changes reported to Council through the regular budget strategy updates throughout the year.

5.0 Service and Financial Sustainability measures

5.1 Given the scale and structural nature of the Council's challenges, the following priority actions will be progressed under the MTFS and the Financial Resilience Framework to mitigate risks and improve sustainability. Council is invited to identify any additional options for development.

- Continue to lobby with regards the systemic challenges facing the Council with Scottish Government, CoSLA and key stakeholders such as Deloitte, the Council's External Auditors, Audit Scotland and the Accounts Commission;
- Be the Future Target Operating Model and Regional Collaborative working;
- Be the Future Transformation Programme, including further development of the Voice-led Transformation Space;
- Income maximisation, including development of the Council's Investment Strategy and Maximisation of Grant Income;
- The Council's Medium Term Financial Strategy updates and development and establishment of the Financial Resilience Framework, and
- Continued focus on sound financial governance and maximising management efficiency in operational delivery.

Lobby and awareness raising activity

5.2 The Council has for many years engaged both politically and managerially to raise awareness of, and lobby for, improvements in respect of the challenges faced by the Council. Continued proactive engagement is required with Scottish Government, CoSLA, External Audit, Audit Scotland and the Accounts Commission to: (i) evidence need and complexity beyond population metrics; (ii) highlight the absence of minimum service baseline funding; (iii) explore flexibilities; and (iv) progress a sector early-warning and support protocol.

5.3 All stakeholders continue to engage in this open dialogue.

Be the Future Target Operating Model

5.4 The Council's agreed Be the Future Target Operating Model promotes: People First; Mixed Economy of Service delivery Models. It explicitly places collaboration and the potential for alternative models of service delivery for the future its the heart. The BtF TOM was agreed by Council in October 2022.

5.5 As we gain traction with our wider transformation programme, especially our work on the Family Wellbeing Partnership, Asset Management, Digital and Data transformation and Investment Strategy approaches, it is clear that our traditional operating structures can sometimes limit flexibility, agility and responsiveness. On some occasions this has even become a barrier

where different portfolio priorities are not consistent. This experience is bringing into focus the need to consider a more holistic review of how we design services to meet people's needs which may in time impact operational structures. This work is being developed in parallel with the BtF Transformation Programme progress.

- 5.6 In response to this learning, the next phase of the TOM has been developed and is also presented on this Council meeting agenda for approval. This focuses on further embedding a whole system outcome focus, and a drive for more integrated service delivery and financial sustainability. The proposals reflect work towards delivering the 'mixed economy' of service delivery models in line with the Council's agreed BtF TOM, including the Transformation through Collaboration proposals agreed by Council in November 2025.
- 5.7 Aligned with the refinement of the Council's TOM, the Council has also agreed a Transformation through Collaboration project with Falkirk Council with the potential future involvement of Stirling Council also being considered. A suite of options and opportunities for the way forward have been identified and the agreed areas are being taken forward through the scoping stage. Each partner is clear that these must be focused on delivering future efficiencies and savings to support the Council's financial strategy, as well as considering service sustainability.
- 5.8 It is also worth highlighting that Solace and the Improvement Service are also currently undertaking work to support change across the whole of local government in Scotland. The Council is involved in this work and the Collaboration project with Falkirk will seek to complement this.
- 5.9 It is anticipated that any such work is likely to be significant with efficiencies and savings not expected until at least 2027/28.

Income Maximisation

- 5.10 Clackmannanshire's Investment Strategy, first approved in March 2023 will be further developed and enhanced to better align with the Council's wider transformation ambitions, emphasising a county-wide approach, stronger prioritisation of external funding opportunities, increased leverage of public and private investment, co-design with communities and more targeted, collaborative pursuit of grants.
- 5.11 It is important that Council is assured that Scottish Government grant income is maximised as far as possible. To facilitate this, the Chief Executive had requested that the Section 95 Officer undertakes a review of the Council's arrangements for completing and submitting its Local Finance Returns (LFRs) to ensure we are accurately maximising access to the funding available.
- 5.12 LFRs are a series of detailed returns that collect final, audited expenditure figures for all local authorities including councils, on an annual basis. The figures collected in the LFRs are published as part of the Scottish Local

Government Finance Statistics publication. Once published, the data is used for a wide range of purposes, including in assessment of Grant Aided Expenditure (GAE). It is, therefore, important that returns submitted accurately reflect demand and spend on services.

5.13 The review has been scheduled to be undertaken in 2026/27 and once we on completion of the internal review, it is intended to engage with practitioner leads within Scottish Government to review any findings/ impacts.

Medium Term Financial Strategy

5.14 Following the Best Value report received in September 2024, the Council's Improvement Plan prioritised the consolidation of its Medium Term Financial Strategy into a single document. Work to take this activity forward was undertaken during the spring of 2025 and approved by Council at its meeting in June 2025. Future updates to the strategy will be presented to Council as new information emerges.

5.15 The key theme of this paper to Council is to further increase awareness of financial resilience and sustainability. Generally, Local Authorities have relied on in-year contingencies and their Reserves' Policies as a measure of financial resilience. Increasingly as a consequence of the Covid-19 pandemic and the increasing number of local authorities in England who have, in recent years, found themselves in financial difficulties, the spotlight has fallen on the financial sustainability of the local government sector in Scotland.

5.16 There has also been greater emphasis from external auditors on the assurance and demonstration of the concept of 'going concern' for local authorities and the Council has experienced this scrutiny first hand from Deloitte, the Controller of Audit and the Accounts Commission very recently.

5.17 Alongside the approved Medium Term Financial Strategy, a Financial Resilience Framework will be developed which will complement the MTFS by ensuring a longer-term view is taken of the Council's financial resilience i.e the ability to withstand events that impact the Council's income and assets, including unforeseen events. It is anticipated that this will be an iterative development process. This development will provide greater awareness and transparency over what financial resilience is, how it is defined and measured and link clearly to the subsequent actions and decisions required.

Financial governance and operational efficiency

5.18 Underpinning all of the collective political and managerial investment in finding innovative solutions to deliver service and financial sustainability, it is important, that a sharp focus is sustained on day-to-day management to ensure it remains operationally efficient and cost effective.

- 5.19 To facilitate this, financial management features within the leadership programme for managers to ensure they are aware of current policies, requirements and expectation in respect of financial management, control and governance. The most recent session was held in August 2025 focussed on financial governance the approved MTFS.
- 5.20 The Section 95 Officer and Senior Leadership Group monitor the Council's financial outturns, including the achievement of savings, closely to identify whether additional actions are required during the financial year to ensure financial balance is maintained once the Budget has been agreed. This has resulted in specific actions being implemented such as spending restraint and short-term vacancy management. Significant additional scrutiny is undertaken by elected members through the Audit and Scrutiny Committee and Council.

6.0 Sustainability Implications

- 6.1 There are no direct 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 have agreed the financial implications as set out in the report. Yes
- 7.4 *Staffing - None*

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 Yes

10.0 Impact Assessments

10.1 Have you attached the combined 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

10.2 If an impact assessment has not been undertaken you should explain why:

There are no policy changes or direct impacts resulting from the contents of this report. This is a positioning report for information,

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)

Yes (please list the documents below) No

Clackmannanshire and Stirling Integration Scheme

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