

## EDUCATION, YOUTH & CULTURE OVERVIEW AND SCRUTINY COMMITTEE

<b>Date of Meeting</b>	Monday, 9 <sup>th</sup> September 2024
<b>Report Subject</b>	School Reserves Year Ending 31 <sup>st</sup> March 2024 and Demographics
<b>Cabinet Member</b>	Cabinet Member for Education, Welsh Language, Culture and Leisure
<b>Report Author</b>	Chief Officer (Education and Youth)
<b>Type of Report</b>	Operational

### EXECUTIVE SUMMARY

The overall level of reserves held by Flintshire schools was £4.125m at 31 March 2024, a decrease of £3.117m compared with the previous year.

A summary of the position at the end of March 2024 is shown in table 1 below.

**Table 1**

Sector	Reserves 31st March 2024 (£)	% of Budget	Reserves 31st March 2023 (£)	% of Budget	Variance (£)	Variance (%)
PRIMARY	3,170,991	5.5%	5,018,600	7.9%	-1,847,609	-36.82%
SECONDARY	676,954	1.3%	1,851,699	3.4%	-1,174,744	-63.44%
SPECIALIST	277,737	5.7%	372,744	7.2%	-95,007	-25.49%
<b>TOTAL</b>	<b>4,125,682</b>	<b>3.6%</b>	<b>7,243,043</b>	<b>5.9%</b>	<b>-3,117,361</b>	<b>-43.04%</b>

The level of school reserves has decreased considerably across all sectors over the past year, as expected.

High levels of inflation, continued support to learners through the on-going impacts of the pandemic and significant legislative changes to support learners with additional learning needs have all served to increase needs, demands and workloads in schools. These factors, combined with the recent budget reductions, have resulted in a reduction in the level of school reserves.

Higher levels of financial uncertainty around the Local Government Financial Settlement, and following a sustained period of high inflation, will mean setting future balanced budgets at a Council, and at an individual school, level will be very challenging in the medium term. Prudent management of school reserves will be an important component in assisting schools to achieve balanced budgets over this difficult period.

## RECOMMENDATIONS

1	To review the report, the level of school reserves as at the 31 March 2024, and overview of schools' current financial position.
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## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING SCHOOL RESERVES</b>																																			
1.01	<p>The overall level of reserves held by Flintshire schools was £4.125m at 31 March 2024, a decrease of £3.117m compared with the previous year.</p> <p>A summary of the position at the end of March 2024 is shown in table 1 below.</p> <p><b>Table 1</b></p> <table border="1"> <thead> <tr> <th>Sector</th> <th>Reserves 31st March 2024 (£)</th> <th>% of Budget</th> <th>Reserves 31st March 2023 (£)</th> <th>% of Budget</th> <th>Variance (£)</th> <th>Variance (%)</th> </tr> </thead> <tbody> <tr> <td>PRIMARY</td> <td style="text-align: right;">3,170,991</td> <td style="text-align: center;">5.5%</td> <td style="text-align: right;">5,018,600</td> <td style="text-align: center;">7.9%</td> <td style="text-align: right;">-1,847,609</td> <td style="text-align: center;">-36.82%</td> </tr> <tr> <td>SECONDARY</td> <td style="text-align: right;">676,954</td> <td style="text-align: center;">1.3%</td> <td style="text-align: right;">1,851,699</td> <td style="text-align: center;">3.4%</td> <td style="text-align: right;">-1,174,744</td> <td style="text-align: center;">-63.44%</td> </tr> <tr> <td>SPECIALIST</td> <td style="text-align: right;">277,737</td> <td style="text-align: center;">5.7%</td> <td style="text-align: right;">372,744</td> <td style="text-align: center;">7.2%</td> <td style="text-align: right;">-95,007</td> <td style="text-align: center;">-25.49%</td> </tr> <tr> <td><b>TOTAL</b></td> <td style="text-align: right;"><b>4,125,682</b></td> <td style="text-align: center;"><b>3.6%</b></td> <td style="text-align: right;"><b>7,243,043</b></td> <td style="text-align: center;"><b>5.9%</b></td> <td style="text-align: right;"><b>-3,117,361</b></td> <td style="text-align: center;"><b>-43.04%</b></td> </tr> </tbody> </table> <p>The level of reserves each school in Flintshire held at the end of March 2024 is shown at appendix 1, along with the prior year comparator.</p> <p>Please note that the figures in Table 1 include totals that schools are required to set aside in the ICT HwB Reserve held centrally on schools' behalf. This is to fund future investment in schools ICT and was a requirement by Welsh Government as part of the conditions of the HwB grant to ensure levels of ICT investment in schools in recent years funded by grants are sustained. Totals are £0.790m at March 2024 and £0.526m at March 2023.</p>	Sector	Reserves 31st March 2024 (£)	% of Budget	Reserves 31st March 2023 (£)	% of Budget	Variance (£)	Variance (%)	PRIMARY	3,170,991	5.5%	5,018,600	7.9%	-1,847,609	-36.82%	SECONDARY	676,954	1.3%	1,851,699	3.4%	-1,174,744	-63.44%	SPECIALIST	277,737	5.7%	372,744	7.2%	-95,007	-25.49%	<b>TOTAL</b>	<b>4,125,682</b>	<b>3.6%</b>	<b>7,243,043</b>	<b>5.9%</b>	<b>-3,117,361</b>	<b>-43.04%</b>
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1.02	<p>Overall, the total level of primary school reserves decreased by £1.848m, the total level of secondary schools' reserves decreased by £1.175m and the total level of specialist schools' reserves decreased by £0.095m.</p> <p>Table 2 below shows the level of school reserves at the year-end over the past 5 years.</p> <p><b>Table 2</b></p> <table border="1"> <thead> <tr> <th>Sector</th> <th>Reserves 31st March 2024 (£)</th> <th>Reserves 31st March 2023 (£)</th> <th>Reserves 31st March 2022 (£)</th> <th>Reserves 31st March 2021 (£)</th> <th>Reserves 31st March 2020 (£)</th> </tr> </thead> <tbody> <tr> <td>PRIMARY</td> <td style="text-align: right;">3,170,991</td> <td style="text-align: right;">5,018,600</td> <td style="text-align: right;">8,445,703</td> <td style="text-align: right;">6,025,937</td> <td style="text-align: right;">1,901,956</td> </tr> <tr> <td>SECONDARY</td> <td style="text-align: right;">676,954</td> <td style="text-align: right;">1,851,699</td> <td style="text-align: right;">3,488,879</td> <td style="text-align: right;">472,112</td> <td style="text-align: right;">-2,076,302</td> </tr> <tr> <td>SPECIALIST</td> <td style="text-align: right;">277,737</td> <td style="text-align: right;">372,744</td> <td style="text-align: right;">620,330</td> <td style="text-align: right;">404,402</td> <td style="text-align: right;">286,303</td> </tr> <tr> <td><b>TOTAL</b></td> <td style="text-align: right;"><b>4,125,682</b></td> <td style="text-align: right;"><b>7,243,043</b></td> <td style="text-align: right;"><b>12,554,912</b></td> <td style="text-align: right;"><b>6,902,451</b></td> <td style="text-align: right;"><b>111,956</b></td> </tr> </tbody> </table>	Sector	Reserves 31st March 2024 (£)	Reserves 31st March 2023 (£)	Reserves 31st March 2022 (£)	Reserves 31st March 2021 (£)	Reserves 31st March 2020 (£)	PRIMARY	3,170,991	5,018,600	8,445,703	6,025,937	1,901,956	SECONDARY	676,954	1,851,699	3,488,879	472,112	-2,076,302	SPECIALIST	277,737	372,744	620,330	404,402	286,303	<b>TOTAL</b>	<b>4,125,682</b>	<b>7,243,043</b>	<b>12,554,912</b>	<b>6,902,451</b>	<b>111,956</b>					
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	<p>Prior to the pandemic, in 2018/19 and 2019/20, the level of school reserves was very low and this was a cause for concern for all. During the height of the pandemic, in both financial years 2020/21 and 2021/22 Welsh Government provided significant additional funding to all schools through specific grants which had the effect of increasing the level of school reserves.</p> <p>High levels of inflation, continued support to learners through the on-going impacts of the pandemic and significant legislative changes to support learners with additional learning needs have all served to increase needs, demands and workloads in schools. These factors, combined with the recent budget reductions, have resulted in a reduction in the level of school reserves.</p>
1.03	<p><b>Council’s role in monitoring the level of School Reserves</b></p> <p>The School Funding (Wales) Regulations 2010 require local authorities to have the following provisions in their Scheme for Financing Schools:</p> <p>The use that a governing body proposes to make of a surplus in the school balance which exceeds 5% of the school budget share or £10,000, whichever is the greater.</p> <p>A provision under which–</p> <p>(a) the authority may direct the governing body as to how to spend a surplus in the school balance for a funding period, if–</p> <ul style="list-style-type: none"> <li>(i) in the case of a primary school the surplus is £50,000 or more, and</li> <li>(ii) in the case of a secondary school or a special school the surplus is £100,000 or more;</li> </ul> <p>(b) the authority may, if the governing body do not comply with such a direction, require the governing body to pay all or part of that surplus to the authority to be applied as part of their schools’ budget for the funding period in question.</p>
1.04	<p>In accordance with the Regulations, the Council’s Scheme for Financing Schools requires a spending plan from schools to confirm the use that the governing body proposes to make of a school balance which exceeds the limits specified.</p> <p>Given the level of uncertainty within which schools were preparing to set their 2024/25 budget, the Council will not be automatically clawing back school reserves in excess of 5% of school budget share at 31st March 2024. However, schools are required to provide more detailed information to better understand each school’s financial position at 31st March 2024 and each governing body’s plan for spending reserves in excess of the 5% level over the medium term (3 years).</p> <p>Analysis of surplus balances over recent years shows that the main reasons for balances being excess of the 5% of school budget recommendation are as follows:</p>

- Challenging recruitment markets with conditions generally making it difficult to recruit, especially employees on a supply or temporary basis or specialisms such as teachers of Welsh
- Building / premises projects that schools had planned and had set reserves aside to fund haven't been able to take place due to issues and delays related to difficulties in finding contractors, sourcing materials, and works also needing to coincide with school holidays
- Reserves purposefully built up to fund a predicted shortfall in funding in future years due to falling pupil numbers
- Reserves purposefully built up due to uncertainty over future funding levels and reductions to school budgets

Plans schools have made for spending their reserves over the medium term are as follows:

- Reserves to be used in balancing future budgets / maintaining existing levels of expenditure when the number of pupils on roll, and therefore funding, falls
- Increasing demands to support pupils with Additional Learning Needs over and above delegated funding received
- Purchasing additional resources and ICT equipment
- Building and premises projects
- Increased expenditure linked with recommendations made by Estyn inspections

1.05

### Secondary Schools Reserves

During the year there has been a general decrease in reserves in the secondary sector. Overall secondary reserves stood at £0.677m - a decrease of £1.175m. This equates to 1.3% of secondary budgets and is a decrease from 3.4% at 31<sup>st</sup> March 2023.

Table 3 categorises school reserves by number in various percentage brackets.

**Table 3**

No. of Secondary Schools	Reserves 31st March 2024	Reserves 31st March 2023
In Deficit Reserves	2	2
Reserves between 0% and 5% of School Budget	7	5
Reserves between 5% and 10% of School Budget	2	2
Reserves between 10% and 15% of School Budget	0	2
Reserves in excess of 15% of School Budget	0	0
<b>TOTAL</b>	<b>11</b>	<b>11</b>

2 schools out of 11 were in a deficit position compared with 2 the previous year. Deficits amounted to £0.378m compared with £0.366m the previous year. In line with the Protocol for Schools in Financial Difficulty, school support and challenge meetings will be continuing with these schools.

In general, the financial resilience of the secondary school sector in Flintshire is still of concern. The total level of reserves across the sector at 1.3% is extremely low and there are concerns that this will increase exponentially in 2024/25 due to the increasing pressure on budgets and

the Council's decision to remove the £0.750m budget to assist schools in the most significant financial difficulty.

**1.06 Primary Schools Reserves**

During the year there has been a general decrease in reserves in the primary sector. Overall primary reserves stood at £3.171m, a decrease of £1.848m. This equates to 5.5% of primary budgets, a decrease from 7.9% at 31st March 2023.

Table 4 categorises school reserves by number in various percentage brackets.

**Table 4**

No. of Primary Schools	Reserves 31st March 2024	Reserves 31st March 2023
In Deficit Reserves	14	6
Reserves between 0% and 5% of School Budget	14	17
Reserves between 5% and 10% of School Budget	18	20
Reserves between 10% and 15% of School Budget	15	17
Reserves between 15% and 20% of School Budget	2	2
Reserves in excess of 20%	1	2
<b>TOTAL</b>	<b>64</b>	<b>64</b>

14 primary schools ended the year with negative reserves compared with 6 the previous year. 1 of the 14 had a small negative balance (that is under £5,000 or 1% of budget) and therefore was not classed as requiring a licensed deficit. The remaining 13 were above that threshold, however, in most cases, licensed deficit applications were not received or adhered to, as required under the Protocol for Schools in Financial Difficulty. The Council has written to all 12 of the governing bodies concerned, to remind them of the requirements of the Protocol.

**1.07 2024/25 – Summary of individual schools' budgetary positions**

The Scheme for Financing Schools requires the governing body of each school to submit a budget plan to the Chief Officer (Education and Youth) by 30th June in each financial year. The Scheme prohibits schools from planning for a deficit when preparing their annual budget plans. Governors have no legal right to set a deficit budget without the consent of the Council and must not presume that such consent will be granted.

If a school cannot set a balanced budget, to gain approval for a planned deficit, the school must submit a licensed deficit application. The application must accompany the budget plan by the 30th June and be in the format prescribed within the Protocol for Schools In Financial Difficulty. This must be approved by the full governing body and recorded in the minutes. The licensed deficit application should be underpinned by a deficit recovery plan indicating what actions will be taken to bring the financial position back into balance.

Schools should only apply for a licensed deficit in circumstances where they cannot set a balanced budget without seriously impacting on essential

educational provision. Schools must, where possible, avoid the need to apply for a licensed deficit by robustly managing their 3-year budget planning process and being proactive in responding to changes early enough to allow mitigating actions to be implemented.

1.08 The Council set its 2024/25 budget in February 2024, after which individual school funding allocations were released. Following the release of individual school funding allocations, the Council’s Finance, HR and School Improvement teams all saw significant increases in activity related to schools seeking support in setting a balanced budget for 2024/25. The challenges schools face include:

- On-going impacts of the pandemic on learners
- Significant legislative changes (ALNET)
- Increased needs, demands and workloads in schools
- Some schools have seen a fall in pupil numbers (over capacity)
- Impact of a sustained period of high inflation
- Reduction in grant funding (compared to previous years)
- Reduction in the Schools’ Budget

1.09 The Council has now received almost all schools budget plans and licensed deficit applications. The challenges schools are facing have resulted in a number of redundancies being made in schools. Table 5 below summarises redundancy information across the sectors:

**Table 5**

	No. of schools that commenced formal redundancy processes	Voluntary Teaching Redundancy notices issued for 2024/25 *	Voluntary Support Staff Redundancy notices issued for 2024/25 *	Compulsory Teaching Redundancy notices issued for 2024/25 *	Compulsory Support Staff Redundancy notices issued for 2024/25 *
PRIMARY	5	2	2	0	0
SECONDARY	3	2	1	1	4
SPECIALIST	0	0	0	0	0
<b>TOTAL</b>	<b>8</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>4</b>

\* as at 31st August 2024

There have been no redundancies to date in the specialist sector. The information relates to the 31<sup>st</sup> August 2024, and is subject to increase if further redundancies are made between 31<sup>st</sup> August and the end of the financial year. A small number of schools may make redundancies at 31<sup>st</sup> December 2024.

Other actions schools have taken to reduce costs include:

- Not renewing fixed term contracts
- Not replacing leavers
- Offering employees opportunities to reduce hours

The Headteacher Federations in Flintshire have worked alongside officers to provide more anecdotal information about the range of staffing reductions that have been undertaken in schools over the last two financial years, which gives a fuller picture of the challenging financial situation.

The information gathered includes the number of fixed term contracts not renewed, the number of staff leavers not replaced, the number of maternity

and paternity leaves not covered by additional staff and the number of posts where hours have been reduced. Whilst 15 schools are still to confirm their returns, the findings across all school sectors are currently as follows:

- Total Number of Fixed Term Contracts not renewed: 122
- Total Number of leavers not replaced: 197.8
- Total Number of maternity/paternity leaves not covered: 27.3
- Total Number of posts where hours have been reduced: 118.75

The Council acknowledges the significant challenges schools are currently facing, and recognises the financial pressures schools, like all Council budgets, are experiencing and thanks its Headteachers and Governing Bodies for their work to date in reducing costs under difficult circumstances.

1.10

The Protocol for Schools in Financial Difficulty is intended to act as a mechanism for the Council to provide schools with an appropriate level of challenge and support to help them set a balanced budget or if this is not achievable to prepare a recovery plan that sets out the action the school will take to achieve a sustainable financial position over an agreed period of time.

Table 6 below summarises the licensed deficit information for 2024/25 across the sectors:

**Table 6**

Licensed Deficit Information	Primary	Secondary	Specialist	Total
No. of schools forecasting a deficit at 31 <sup>st</sup> March 2025	19	8	0	27
No. of schools needing to apply for a licensed deficit	15	7	0	22
Estimated total deficits 31 <sup>st</sup> March 2025 (£) *	-£0.9m	-£2.8m	0	-£3.7m
Forecast level of total reserves 31 <sup>st</sup> March 2025 (£) *	£0.4m	-£2.5m	£0.1m	-£2.0m
Planned use of reserves during 2024/25	£2.3m	£2.8m	£0.2m	£5.3m

\*Excludes HwB reserves

As reported previously, under the Protocol for Schools in Financial Difficulty, rigorous reviews will take place to fully understand the financial position of each school in deficit.

As part of the response to the Estyn recommendation to manage the reduction in school budget deficits more effectively, additional funding was allocated to secondary schools in 2021/22 for this purpose and initial work was conducted with secondary schools to review the funding formula. This funding has historically been targeted towards those schools in deficit and which cannot set in year balanced budgets from the resources allocated through the funding formula, whilst delivering a broad and balanced curriculum. This elicits the question as to whether the funding formula



provides sufficient resource for schools, particularly smaller schools, and those serving our most deprived communities, to operate sustainably.

This additional funding allocation has been removed from the 2024/25 budget and the impact of this is evident when reviewing forecasted deficit school balances as at 31<sup>st</sup> March 2025, which is estimated to be -£3.7m across all sectors, with -£2.8m of this deficit being in the secondary sector. Across all sectors the total surplus balances are expected to be in the region of £1.7m, which would leave a net level of reserves of approximately -£2m.

Looking forward to future years, it appears that setting a balanced budget is becoming increasingly difficult across all sectors and that there is a risk around deficit balances becoming greater in the short to medium term.

1.11

### **Demographics**

Demographic changes in the distribution of pupils across the primary and secondary sectors have taken place in recent years, with secondary pupil numbers increasing whilst primary pupil numbers declined. This resulted in a redistribution of funding between sectors. Overall, in 2024/25, the fall in number of learners across sectors, led to a net reduction in funding to schools of £0.675m.

This downward trend in numbers of learners is forecast to continue, however it is anticipated that pupil numbers across both the primary and secondary sectors are likely to decrease, which will have a further negative financial impact on school funding, going forward.

Forecasted pupil numbers, for the next 3 years, are shown in Table 7 below and this highlights the decline in pupil numbers across both sectors. This is reflective of the declining birth rates in Flintshire.

**Table 7**

<b>Sector</b>	<b>Sept-24</b>	<b>Sept-25</b>	<b>Sept-26</b>
<b>Primary</b>	11,039	10,835	10,641
<b>Secondary</b>	9,538	9,382	9,182

Each year, an adjustment is made in the Medium Term Financial Strategy (MTFS) to reflect the changing pupil numbers. The school funding formula is made up of several elements which include various cost drivers, for example pupil numbers, floor area, lump sum per school etc. The calculation for the budget adjustment takes into account all of the “per pupil” funding and multiplies this by the change in pupil numbers.

Based on the 2024/25 “per pupil” funding and the forecasted pupil numbers given in table 7, it is anticipated that over the 3 year period, the Primary sector will see a reduction to the budget of c.£4m and secondary will be reduced by c.£1.5m. This is a very high-level estimate at this stage and should be treated with a great degree of caution, as there are a number of varying factors, such as the actual changes to pupil numbers each year which will only become known as we receive the final



	<p>admissions data each year and other budgetary adjustments affecting the school funding formula.</p> <p>There is concern for the financial resilience of our smaller schools and this will need to be considered as part of the Council's longer-term strategy.</p>
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<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	No direct resource implications as a result of this report, however as school budgets come under increasing pressure, demand for the Council's support services to schools is likely to increase and response times may be impacted as a result.

<b>3.00</b>	<b>RISK MANAGEMENT</b>
3.01	As budgets come under increasing pressure from high levels of inflation and reduced financial settlements compared with recent years, there is a risk that more schools will slip into a deficit position. The Schools Accounting Team will continue to operate a risk rating process to identify schools where the financial position is a cause for concern so that they can target their support.
3.02	To balance budgets schools may need to review their employment structures which may result in redundancies.
3.03	Continued pressure on school finances may result in increased class sizes, a reduced curriculum and falling standards.
3.04	The higher number of schools in a deficit position is significantly increasing the workload of senior officers of the Education Portfolio, the Schools Accounting Team and HR officers. This additional time focusing on financial management in schools is likely to result in a reduction in focus on other aspects of school improvement, which could have a negative impact on schools performance overall.

<b>4.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
4.01	This report has been circulated to all Headteachers and will be reviewed by the School Budget Forum and the Governance and Audit Committee at their September 2024 meetings.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 - School Reserves 2023-24.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	None.

<b>7.00</b>	<b>CONTACT OFFICER DETAILS</b>
7.01	<p><b>Contact Officer:</b> Emma Jamieson, Strategic Finance Manager - Schools  <b>Telephone:</b> 01352 702213  <b>E-mail:</b> <a href="mailto:emmajamieson@flintshire.gov.uk">emmajamieson@flintshire.gov.uk</a></p>

<b>8.00</b>	<b>GLOSSARY OF TERMS</b>
8.01	<p><b>School Reserves</b> – Reserves are sums of money that schools carry forward from one year to the next. They arise from underspends and overspends against school allocations over time. Schools are responsible for managing their own finances. The level of reserves held by an individual school will depend on a number of factors. These will include the timing of receipt of income and of payments, and the level of contingency fund the school governing body considers appropriate and the particular plans each school has for expenditure.</p> <p><b>Flintshire County Council’s Scheme for Financing Schools</b> – The Scheme defines the financial relationship between Flintshire County Council and its maintained schools. The Scheme details the financial management arrangements to which the Authority and its schools are required to adhere. The framework for this Scheme is based on legislative provisions contained in sections 45-53 of the School Standards and Framework Act, 1998 and as further detailed in The School Funding (Wales) Regulations 2010.</p> <p><b>Protocol for Schools in Financial Difficulty</b> - Acts as a mechanism for the Council to provide schools with an appropriate level of challenge and support to help them set a balanced budget or if this is not achievable to prepare a recovery plan that sets out the action the school will take to achieve a sustainable financial position over an agreed period of time.</p>