

**RAG RATING OF SCHOOL BALANCES**

The purpose of RAG rating school balances is to identify any schools which are at risk of going into deficit or in deficit and will need a financial plan in order to avoid or recover from a deficit to stabilise to a sustainable basis.

The RAG rating is based on the criteria below:

RED - Any school ending the preceding year with a negative cumulative balance or forecasting to end the current year with a negative cumulative balance will be given a status of RED. The Scheme for Financing Schools does not permit a school to plan for a deficit budget. Where in exceptional circumstances deficits cannot be avoided, then such deficits need to operate under licence. This requires the school to agree a deficit recovery plan with the Authority before the first formal budget is set in the financial year of the planned deficit.

AMBER - Any school ending the preceding year with a balance of less than £50,000, or projecting to end the current year with less than this amount. This is because there could be an unforeseen event, a change in legislation, or a change in operating pressures on the school during the course of a year which could quickly wipe out such a low level of reserve and put it in a deficit position.

Any school ended the preceding year with a surplus reserve but which made a deficit in the year which if continued at the same rate for 2 further financial years would take it into a negative reserve position will also be given a status of AMBER. This is because action may need to be taken now to reverse an underlying trend that is leading it to a deficit reserve.

GREEN – schools that are not classified as Red or Amber. This will be kept under review as actual in year expenditure may indicate a deterioration in the year end position.

