



Title of report: Revisions to Herefordshire's Scheme for Financing Schools

Meeting: Herefordshire Schools Forum

Meeting date: Tuesday 20 January 2026

Report by: Head of Strategic Finance (Deputy S151)

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

For Schools Forum to consider and approve amendments to the Herefordshire's Scheme for Financing Schools (Local Management of Schools (LMS) Scheme), for implementation with immediate effect.

Recommendation(s)

That:

- a) Schools Forum note the Department of Education (DfE) directed change to Herefordshire's Scheme for Financing Schools (LMS Scheme) as detailed at Appendix A, regarding borrowing by schools (3.6),
- b) Schools Forum consider and approve local revisions to Herefordshire's Scheme for Financing Schools (LMS Scheme) as detailed at Appendix A.

Alternative options

1. Department for Education (DfE) instructed changes must be implemented, however local changes can be rejected if Schools Forum so wish. The Scheme would remain as it is for those items until a solution is found, or the Council seeks permission from the Secretary of State, in

accordance with Part 4 of the School and Early Years Finance and Childcare (England) Regulations 2025.

Key considerations

2. Section 48 of the Schools Standards and Framework Act 1998 obliges Local Authorities to establish and maintain a Scheme for Financing Schools dealing with how a Local Authority will finance the schools that it maintains.
3. The Scheme applies to all community, nursery, special, voluntary, foundation (including trust), foundation special schools and PRUs maintained by the local authority, whether they are situated in the area of the authority or situated elsewhere. It does not apply to schools situated in the local authority's area which are maintained by another authority. Nor does it apply to academies.
4. In line with the Regulations, revisions to a Local Authority's Scheme for Financing Schools can only be implemented once a Local Authority has consulted with their maintained schools and obtained the approval of either their Schools Forum or the Secretary of State for Education.
5. Only Schools Forum members representing maintained schools are eligible to vote on the proposed changes.
6. However, amendments to a Scheme for Financing Schools, that are necessary to enable it to comply with changes to the law introduced by the Regulations, do not require consultation or the approval of a Schools Forum.
7. Herefordshire Council commenced a public consultation on 1 December 2025 on the proposed changes to the Scheme for Financing Schools (LMS Scheme). The consultation received 7 responses before closing on 19 December 2025. The responses to the proposed amendments are noted alongside each one below.
8. The proposed amendments are detailed in Appendix A. In summary, the revisions proposed are:

Changes to the guidance directed by the DfE

- Borrowing by schools (3.6) – The introduction of IFRS 16 for Local Authorities from 1 April 2024 ends the distinction between operating and finance leases at maintained schools and in effect, all leases will be classified as finance leases for accounting purposes. Guidance updated to reflect the Secretary of State providing blanket consent to certain categories of finance lease.

Local Revisions

- Scheme updated throughout to reflect Council structure, contact details, dates and guidance links. Also, removal of any historical references to ceased funding or duplicated points.
- Provide additional clarification on several points including revision of the scheme (1.4), controls on surplus balances (4.2), charging for school activities (5.7), income tax and national insurance (7.2) and liability of governors (11.2).
- Controls on surplus balances (4.2) – Provide the ability to reprofile surplus balances held by schools with licensed deficits to support returning to surplus position if they deficit budget.

- Planning for deficit budgets (4.5) & Licensed deficits and recovery plans (4.9) – Provide further clarification on the arrangements for licensed deficits and reflect a more prudent approach to planned deficits held against collective surplus school balances.
- Section 10 Insurance Cover removed and revised to reflect the introduction of the DfE Risk Protection Arrangement (RPA).

Community impact

9. In accordance with our code of corporate governance, Herefordshire Council is accountable for how it uses the resources under its stewardship, including accountability for outputs and outcomes achieved. In addition, the council has an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. The council is committed to ensuring openness and transparency and the recommendations of this report demonstrate the reasons for a policy change being made.

Environmental impact

10. This is a consultation with Schools Forum on school funding and will have no direct environmental impacts. School governing bodies and trustees are responsible for deciding on expenditure and they will be encouraged to minimise waste and resource use in line with the Council's Environmental Policy.

Equality duty

11. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services.

12. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows: A public authority must, in the exercise of its functions, have due regard to the need to – (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act; (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

13. In relation to school finance, it is the responsibility of individual governing bodies to commit expenditure according to individual pupil need. Changes in high needs provision will require consultation with users, and further advice from legal services will be sought should this be necessary. However, the decisions of the school forum should have regard to this duty and the potential implications of any decisions made.

Resource implications

14. The school's budget is fully funded by Dedicated Schools Grant (DSG).

Legal implications

15. The recommended amendments to the Scheme are in accordance with updates to the Department for Education (DfE) guidance to reflect changes in the Schools and Early Years Finance (England) Regulations 2025. DfE statutory guidance on schemes for financing schools for local authorities March 2025 states that councils are required to publish schemes for financing schools setting out the financial relationship between them and the schools they maintain. In making any changes to their schemes, councils must consult all schools in their area and receive the approval of members of their schools forum representing maintained schools. Councils must take this guidance into account when revising their schemes, in consultation with the schools forum.

Risk management

16. The council will fully comply with the amendments to the scheme.

Consultees

17. Budget Working Group (BWG) was informed of the planned consultation process at the meeting on the 7 November 2025 and Schools Forum at the meeting on the 21 November 2025.

18. Herefordshire Council commenced a public consultation on 1 December 2025 on the proposed changes to the LMS Scheme. The consultation received 7 responses before closing on 19 December 2025.

19. Budget Working Group (BWG) have reviewed the responses to the consultation on 9 January 2026 and recommend that Schools Forum approve all of the proposed revisions at the meeting on 20 January 2026.

Appendices

Appendix A – Revisions to Herefordshire's Scheme for Financing Schools

Background papers

None.

Glossary of terms, abbreviations and acronyms used in this report

BWG	Budget Working Group (of Schools Forum)
CEST	Check Employment Status for Tax
CFR	Consistent Financial Reporting
DfE	Department of Education
DSG	Dedicated Schools Grant
LA	Local Authority
LMS	Local Management of Schools
IFRS 16	International Financial Reporting Standard 16 (Leases)
PAYE	Pay As You Earn
RPA	Risk Protection Arrangement