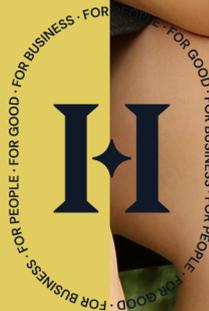




Spring 2026

Schools Briefing

HaysMac[★]



Contents

Welcome from the editor	1
Tax points and turning points: A year of VAT in practice	2
Independent Schools – property disposals and Charities Act compliance	4
Navigating the revised charities SORP	8
Trump, Tariffs and Turmoil – should we expect more of the same?	14
Managing risks around visa conditions and working hours	18
Business resilience and third-party risk management	22
Schools Team	24
Upcoming events programme	26

Welcome from the editor



Lee Stokes
Partner
T: +44 20 7969 5656
E: lstokes@haysmac.com

Welcome to the Spring 2026 edition of our Schools Briefing for independent schools, where we provide updates and insights on accounting, tax, reporting and governance for school bursars and Governors.

To begin, Phil Salmon, Partner and Co-Head of VAT, reflects back on a year since VAT was introduced on school fees and provides a reminder of the key tax points to consider. He goes on to look at a First-tier Tribunal case from September 2025 and how this may impact independent schools.

Our first guest authors for this edition, Mark Traynor, Partner and Jordan Waites, Real Estate Associate at Bates Wells, navigate the property provisions of the Charities Act as schools consider expanding through mergers, consolidating multiple sites or seeking to unlock value from surplus land. They consider the primary objective of the Act and offer some practical and strategic considerations for schools.

Jane Askew, Partner and Head of Education, looks at the impact of the revised Charities SORP for independent schools and advises that it might be a good idea to start thinking about the implementation of the new regulations now. She goes on to consider the key changes that may affect schools, and how the heightened interest in school's financial statements in the current environment may present a timely opportunity to revisit the style and content of governors' reports.

Our second guest author, Ben Minter, Portfolio Director at Cazenove Capital, reflects on what lessons can be learned from the past and how schools can best position themselves for the future. He starts by reflecting back on the key events affecting global markets in 2025 before looking ahead to what 2026 may have in store.

Nick Bustin, Employment Tax Director, looks at managing risks around visa conditions and working hours. He considers two common areas of risk and what processes schools should have in place to manage those risks.

Finally, Rakesh Vaitha, Risk Assurance and Advisory Services Director, shares his thoughts regarding business resilience and third-party risk management as schools find themselves operating in a more challenging risk environment.

We hope you enjoy this edition and find the articles both useful and of interest. If you have any questions about the topics covered, please feel free to reach out to the authors, your usual HaysMac contact, or me for further information and guidance.

Tax points and turning points: A year of VAT in practice

It is now over a year since VAT was introduced on school fees, so firstly congratulations on making it this far. But it is only now after a year of dealing with VAT that certain things have started to come to light. The principles are one thing, but it is only when you are actually dealing with something day in, day out, **that something that sounds simple in principle is less easy in reality.**

Tax points, or more correctly, the time of supply, have attracted the attention of schools from day one, not least because of the issue of Fees In Advance and whether a parent could secure a VAT advantage if they paid fees prior to the introduction of VAT on school fees.

It was known from the start that this would be something that an incoming Labour Government, and by extension, HMRC, would not like and would seek to challenge. But, subject to the form any such challenge might take, the general view was that a payment in advance would mean no VAT would be payable on that payment.

The reasons for that are relatively straightforward, as a key part of the functioning of the VAT system is a set of rules to determine the time at which a supply is made. At its very simplest, without such rules, how would a taxpayer know on what VAT return to declare his sales?

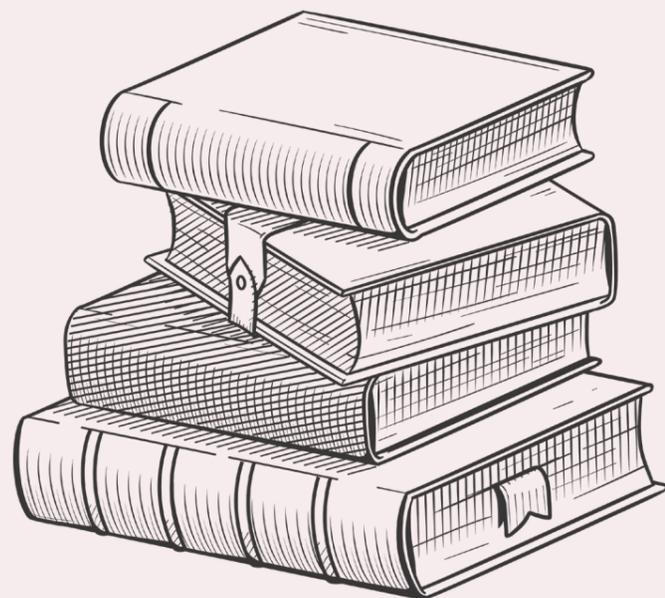
There are two different types of time of supply or tax point. They differ slightly as between goods and services and there are also rules for continuous supplies of services. We can ignore the rules regarding goods for the purposes of this article since, for the most part, schools are involved in providing services.

The two different types of time of supply are referred to as the 'basic time of supply' and the 'actual time of supply'. For services, the basic time of supply is the date the service is performed. But the basic time of supply can be overridden by the actual time of supply, and this is also why there are special rules for continuous supplies of service as how can you tell when a service is performed if it is performed continually.

The actual time of supply can occur either before or after the basic time of supply and what follows relates to the position where the actual time of supply is before the basic time of supply.

Where payment for a service is made prior to the basic time of supply, it creates an actual time of supply to the extent covered by the payment at the time of payment.

Similarly, if a VAT invoice is issued prior to the basic time of supply, then it also creates an actual time of supply at the time of issue of the invoice to the extent covered by the invoice.



In summary, the tax point is created at the earlier of:

- ♦ The date the service is performed;
- ♦ The date payment is received; or
- ♦ The date a VAT invoice is issued.

Pausing there, you are probably thinking, why are they talking about this again when they have done it to death over the last two plus years? The reason is that, whilst the principle is simple, what has thrown some people out is that they thought that they had issued a VAT invoice, but they hadn't.

Regulation 14 of the VAT Regulations sets out the contents of a VAT invoice and says: "(1) Subject to paragraph (2) below and save as the Commissioners may otherwise allow a registered person providing a VAT invoice in accordance with regulation 13 shall state thereon the following particulars:

- (a) A sequential number based on one or more series which uniquely identifies the document.
- (b) The time of the supply.
- (c) The date of the issue of the document.
- (d) *Onwards not relevant.*

The key point is that the invoice must show two dates, the time of the supply and the date of issue of the invoice. If it does not show these two dates it is not a VAT invoice and cannot create a tax point.

It is common for schools to issue invoices prior to the start of term and what has now emerged is that it is fairly standard for those invoices to show the date payment should be made by, being the start of the relevant term.

It appears that many schools have been working on the assumption that these invoices are VAT invoices, when in the absence of the invoice showing the date of issue they are not. In many cases it seems that invoice templates are incapable of showing two dates.

This may seem like a technicality, but the importance of the point is referenced in HMRC's internal guidance manual VATREC5040 which states:

"The date of issue must always be shown on a VAT invoice. If this is also the time of supply (tax point) then the time of supply need not be shown separately."

In addition, the point came up in a First-tier Tribunal case, Eurocent (Buckingham) Ltd which was heard in September 2025 where HMRC were arguing that the company had incorrectly claimed input tax on invoices which HMRC argued were not VAT invoices because they only had one date on them.

HMRC lost the case, in part because in that case, the date of issue of the invoice was the same date as the time of supply. The Tribunal confirmed that there was no need to show two dates when they were the same in accordance with HMRC's own guidance which the officers had ignored.

Are schools at risk if their invoices are not VAT invoices? Quite simply the answer is no, because the VAT regulations do not require a VAT registered person to issue VAT invoices to private individuals, only to other VAT

registered entities.

This also helps bursars who are being pressured by parents to issue invoices addressed to a business where the bursar clearly suspects that the parent will attempt to claim back VAT through the business and does not want to assist in a fraud, as all they have to do is ensure that the invoice does not show the date of issue and make a contemporaneous note that the invoice was issued under pressure but it was not a VAT invoice.

In essence, this tiny detail means that in almost every case, the tax point will be the date of receipt of payment, and schools can continue to invoice in accordance with their established practice prior to VAT being introduced without fear of bringing forward a requirement to account for VAT.



Phil Salmon
Partner, Co-Head of VAT
T: +44 20 7969 5611
E: psalmon@haysmac.com

Independent Schools – property disposals and Charities Act compliance

The landscape for independent schools has become increasingly turbulent, particularly following the removal of the VAT exemption on fees and the consequential financial challenges resulting from that change.

As a safeguard against closure, many independent schools are increasingly looking toward merger, consolidation or strategic restructuring to ensure long term viability.

Whether your school is expanding via a merger, consolidating multiple sites or simply seeking to unlock value from surplus land, navigating the property provisions of the Charities Act 2011 (as updated by the Charities Act 2022) is critically important.

1. Charities Act compliance during a merger

The Charities Act focuses primarily on the disposal of land - which includes property transfers, the grant of a lease when the charity is a landlord, the surrender of a lease when the charity is a tenant and the grant of easements. The primary objective is to ensure that charitable assets are not disposed of at an undervalue, misused or misappropriated.

Charity to charity transfers

If one charitable independent school is transferring land to another charitable entity as part of a merger, an exemption often applies. This allows the transfer of land for nil or nominal value, provided that the charitable objects of both parties are compatible (for example, both are dedicated to advancing education). If objects are not compatible, an application to the Charity Commission to amend objects may be necessary.

Charity to non-charity transfers

If a charity proposes to transfer land to a non-charitable entity, the process is more stringent:

- ♦ The land must be sold for full market value;
- ♦ The charity will need to be mindful of any endowments or other restrictions on its ability to sell the land; and
- ♦ Consent from the Charity Commission may be required.

Where the non-charitable entity is transferring its land and assets to the charitable entity then substantial Charities Act compliance is not necessary which, along with the above points, will be relevant considerations as to how the parties wish to structure a merger.



2. Property disposals post-merger

Following a merger of two independent schools, the surviving entity may find itself with surplus land. Generating income through the sale or letting of this land triggers specific statutory duties for trustees.

The role of the “Designated Adviser”

Trustees are legally required to obtain the best terms reasonably obtainable for any disposal. Accordingly, for most disposals – other than the grant of leases for seven years or less – trustees must, before entering into an agreement for the disposal:

- (a) obtain and consider a written report on the proposed disposal from a designated adviser who is instructed by the trustees and acting exclusively for the charity; and
- (b) decide, having considered the adviser’s report, that they are satisfied that the terms (not just price) on which the disposition is proposed to be made are the best that can reasonably be obtained for the charity.

Under the Charities Act 2022, this pool of advisers now includes:

- ◆ RICS Qualified Surveyors;
- ◆ Fellows of the Central Association of Agricultural Valuers.
- ◆ Fellows of the National Association of Estate Agents (NAEA Propertymark).

Simplifications for certain disposals and internal advice

Recent legislative updates have made the process more flexible:

- ◆ **Internal advice:** a qualified employee or trustee can provide the Designated Adviser’s report, provided they are not involved in the final decision making process. However, in practice it will often be more appropriate to instruct an independent adviser, even where the charity has suitably qualified individuals internally. If trustees proceed with obtaining the advice internally, any payments made to trustees must be authorised under the charity’s governing document and trustees should also consider whether appropriate professional indemnity insurance cover is available.
- ◆ **Shorter leases:** for leases of seven years or less, trustees need only obtain advice from someone they reasonably believe has the “requisite ability and practical experience” to provide them with competent advice on the proposed disposal (such as a finance director or someone with surveying or valuation expertise), but again, anyone who provides internal advice must be excluded from the decision making.

Timeline for compliance

It is vital to remember that the adviser’s report must be commissioned and considered by the trustees before exchanging contracts. Failure to follow these steps can delay transactions or lead to breaches of trust.

3. Practical and strategic considerations

Beyond strict legal compliance, several practical factors can influence the success of a land disposal:

- ◆ **Early involvement:** engaging a Designated Adviser early is prudent. While the final report is issued near completion, their early advice on marketing strategy and property improvements is often valuable. This approach also assists with identifying discrepancies between the terms agreed and what the Designated Adviser deems best terms reasonably obtainable at the earliest possible opportunity and therefore mitigate the risk of delay.
- ◆ **Development potential:** if the land has development value, schools might consider conditional contracts (subject to planning) or overage clauses to capture future price uplifts.
- ◆ **Pupil safeguarding:** this is paramount when selling or letting part of a site. Schools should consider access rights for buyers and include restrictive covenants in the legal documents to prohibit inappropriate uses of the land.
- ◆ **Connected persons:** if a disposal is to a “connected person” (such as a relative of a trustee or a closely linked company), the trustees will need to obtain an order from the Charity Commission in order to proceed with the disposal.

- ◆ **Licences:** where schools intend to hire out hall space or host third-party pre-schools, they may wish to consider whether the grant of short term licences to occupy or room hire agreements might provide a more flexible option to regularise these arrangements. In contrast to a lease – which constitutes a disposal of land under the Charities Act – a licence is merely a personal permission for a party to use the space for a specific purpose (for example, a pre-school operating during specified hours). It does not grant exclusive possession, and the school typically retains the right to move the licensee to a different part of the building or enter the space at any time. While Charities Act requirements are similarly simplified for licences, they still require careful management to avoid inadvertently granting greater property rights than intended, which could put trustees in breach of their duties. Licences are generally appropriate for specific short term, limited circumstances.

If you have any questions on the above, or would like to discuss any of the topics, please do not hesitate to get in touch with Mark Traynor or Jordon Waites.



Mark Traynor
Partner, Bates Wells
T: +44 207551 7868
E: m.traynor@bateswells.co.uk



Jordon Waites
Real Estate Associate, Bates Wells
T: +44 207551 7690
E: j.waites@bateswells.co.uk

Navigating the revised charities SORP

On 31 October 2025 the final version of the revised Charities Statement of Recommended Practice (SORP) was issued. The revisions apply to financial years commencing on or after 1 January 2026, and therefore for schools with a standard year-end it will be your 2027 year-end financial statements that are first impacted. Although this may seem a while off, there are aspects of the changes that may impact your management reporting, so it is a good idea to start thinking about them now to **ensure you are prepared for their impact.**

The reasons for the change

The intention for a significant refresh of the SORP was on the horizon for several years. The last major revisions to the financial reporting framework for charities were in 2015, alongside the advent of Financial Reporting Standard (FRS) 102. Those of us working in accountancy back then may remember the heady excitement of the one-off ability to transfer from a valuation model to a cost model for tangible fixed assets, which presented some schools with the ability to free themselves from costly independent valuation reviews. The timing of these upcoming revisions is again driven in part by significant revisions to FRS 102, which were published last year and include two key changes that are aimed at aligning UK accounting standards more closely with International FRSS.

Income recognition overhaul

One of the key changes to FRS 102 is the move to a five-step model for income recognition, aligning it with International Financial Reporting Standards which introduced a similar model in 2018. This five-step model only applies to income from contracts with customers, meaning donations, legacies and other income from non-exchange transactions are excluded. Such income streams will broadly continue to be recognised in their current manner.

The five-step model requires you to:

1. Identify a contract with a customer;
2. Pinpoint distinct performance obligations;
3. Determine the transaction price;
4. Allocate that price to each obligation; and
5. Recognise revenue (income) as each obligation is satisfied.

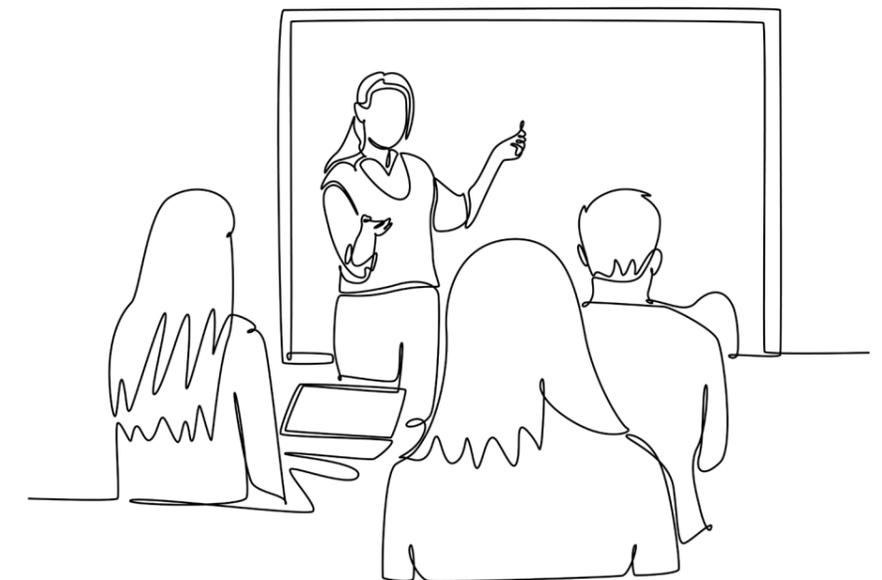
This change is likely to have a significant impact on some charities – for example, membership organisations that charge a joining fee – however, I am not expecting this change to impact many schools significantly, as contracts generally span an academic year which aligns with the financial year end, and contracts spanning multiple years are not commonplace. If your school has income-generating relationships with international schools, such as royalty or profit-sharing arrangements, I recommend you review these contracts in the coming months to assess whether there is any impact from this change.

Lease accounting – moving leases to the balance sheet

The amendments to lease accounting are likely to impact more schools. The significant changes only apply to lessees, so lessors can rest easy.

At present we have two types of leases: finance leases (recognised on the balance sheet), and operating leases (recognised as an expense as the obligation falls due). When the new SORP comes in, all leases other than short-term and low-value ones will move onto the balance sheet, with recognition of a right-to-use asset and a corresponding lease liability. Lessees must discount the lease payments using an implicit, incremental or obtainable borrowing rate. The aim of these changes is to enhance transparency and comparability.

These changes have the potential to impact metrics such as EBITDA because depreciation charges will be higher, and asset values on the balance sheet. If your school has financial loan covenants, it would be wise to calculate the estimated impact of these changes so that you can have an early conversation with your bank if you are at risk of a breach.



FRS 102 fails to provide any examples of 'low-value' assets, but the SORP helpfully does: naming PCs and tablets, small items of office furniture and telephones as low value. Cars, vans, minibuses and land and buildings are among the assets specifically noted in FRS102 as not being low-value, and so any such leases will need to be brought onto the balance sheet. Other assets may be more subjective; most of the questions I've received so far have related to photocopiers; it is worth discussing any leases where you are unsure with your auditors or accountants to help avoid any late adjustments to your accounts. There is also a helpful flowchart in module 10B of the SORP which is designed to help you identify whether lease accounting rules apply to the assets that you are utilising.

Some schools have historic arrangements with related or connected entities that allow them to use or lease buildings for a low or nominal value. The new SORP specifically addresses occasions where assets, particularly land and buildings, are leased at a nil or nominal value, often by another charity in order to further its own charitable purpose. The SORP states that these types of arrangements are unlikely to meet the definition of a lease, and that charities should consider the benefit that is being received and how it should be measured and accounted for – potentially by recognising a benefit in kind for the value that would otherwise have been paid to lease a similar asset.

The concept of a 'social donation lease' has also been introduced where, unlike in the situation described above, a charity does have a lease arrangement that meets the SORP criteria for lease accounting, but where the lease payments are significant below market rents. In these instances, the charity must account for the 'non-exchange' component of the lease, which will generally be the difference between the fair value of the asset and the lease payments. This will result in an increased asset value and increased depreciation charge; and the recognition of a donation-in-kind for the element of the asset that has effectively been gifted.

Thankfully, there is no restatement of comparatives when bringing in this change to lease accounting. Previously existing operating leases are accounted for using a modified retrospective approach, by adjusting the opening balance for the cumulative effect of applying the new standard.



Tiered reporting explained

The revised SORP brings in a tiered structure for charity reporting, with the current tiers as follows:

Tier	Income
1	Below £500,000
2	Between £500,000 and £15 million
3	Above £15 million

As all charities must follow FRS 102 with their accounting, the main areas affected by the tiered reporting are the required disclosures in the governors'/ trustees' report, which I have set out in this article. There is also more flexibility for charities in Tier 1 regarding how they present their income and expenditure in their accounts, with the option to classify income and expenditure by natural classification.

Bursars whose schools fall into Tier 2 may be happy to hear that the exposure draft removes the requirement to prepare a Statement of Cash Flows for Tier 1 and 2 charities, though you can continue to include one if you wish. Currently, cash flow statements must be prepared by all charities with income above £500,000.

As an auditor, I would still recommend that you keep your cash flow statement within your accounts working papers as it can be a helpful check to ensure that the Statement of Financial Activities and Balance Sheet are aligned, and can help you identify the issue when they don't. You may be disappointed to read that this is likely to be the only area where financial statements are shortened in the new version of the SORP.

Although the introduction of multiple tiers of reporting is welcome, the Tier 1 threshold feels too low to me, particularly because the current SORP has reduced reporting requirements for charities with income below £1 million. The Scottish audit threshold has recently increased to £1 million income, and the threshold for charities registered in England and Wales is also expected to increase to £1.5 million gross annual income in September 2026. However, the audit threshold in Northern Ireland remains £500,000 and therefore it is likely these tiered thresholds will remain at their current levels.

Most independent schools will not be significantly impacted by any change to the Tier 1 threshold, as their income will be comfortably within or exceed Tier 2, but there may be an increased reporting burden for schools with associated charitable trusts if these have income between £500,000 – £1 million.

Trustees' Report requirements – a change of style, but what about substance?

The Trustees' Annual Report module of the SORP has received a significant overhaul in terms of style. One of these stylistic changes is that questions are posed for trustees to ask themselves, such as: who are the users of the report, and what are their information needs?

The new SORP is more prescriptive about charities providing details and examples of their activities and impact. One of the questions that trustees in all but Tier 1 must answer in their report is 'what are the changes or differences the charity seeks to make through its activities.' You are also specifically asked to provide details of the criteria or measures that are used to assess success.

There is a further requirement to consider the long-term effect of the charity's activities both on individuals and on society as a whole, with impact stories being encouraged. This presents an opportunity for schools to showcase not only the bursarial support given to deserving individuals during the year, but also the success that historic bursary awards have had on individuals' lives and their contributions to society.



The headings that this part of the SORP is structured under (objectives and activities, achievements and performance, etc.) have remained the same, but there is an entirely new section titled 'Sustainability'. The requirements of this section are only mandatory for schools in Tier 3; all other schools are merely encouraged to explain how they are responding to and managing environmental, governance and social matters. There is a degree of flexibility for Tier 3 charities in how they report on sustainability matters, with the SORP suggesting indicators such as board diversity, privacy and data security, and progress against targets for climate-related matters. Many larger schools are already reporting on various energy-related matters as part of the 2018 Energy and Carbon Reporting requirements, and these will form a part of the sustainability section of the report.

What to do now

Now that the final SORP has been issued, it is time to start planning how the changes will affect you, particularly any impact that the changes to lease accounting will have on your management reporting, financial covenants, and current and planned borrowing. Early adoption is permitted, so you may wish to consider whether it would be more practical to implement the changes in the 2026 financial statements.

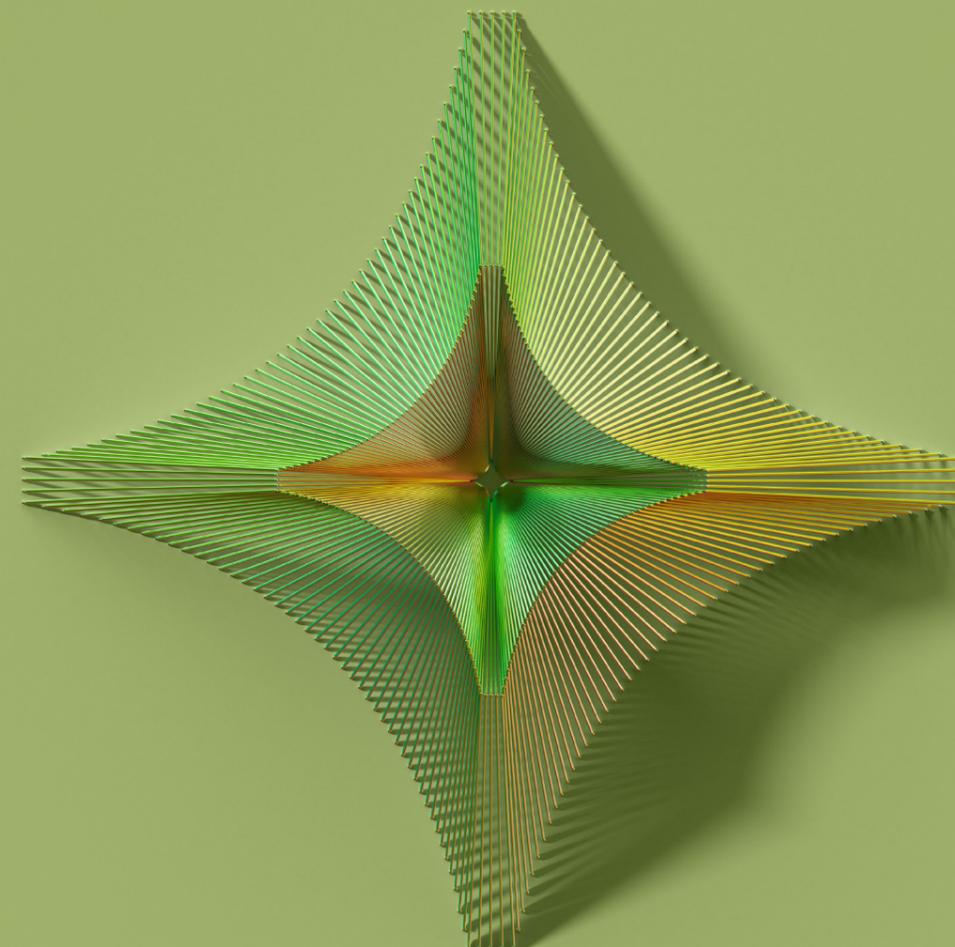
The SORP changes present a good opportunity to consider whether an overhaul of the contents and presentation of your financial statements would be beneficial, particularly if you haven't revisited the style and content of your governors' report in recent years. I've seen more schools preparing a 'glossy' governors' report recently, with pictures and graphics used to showcase achievements.

Interest in your school's financial statements from both current and prospective parents is likely to be heightened in the current climate, and so it is worth reconsidering the document to ensure it remains as valuable as possible in the years ahead.

We will be keeping our clients informed about how the changes to the SORP will impact them specifically. If you would like any specific assistance with the changes, such as forecasting the impact of the changes to lease accounting, please don't hesitate to get in touch.



Jane Askew
Partner, Head of Education
T: +44 20 7969 5683
E: jaskew@haysmac.com



Trump, Tariffs and Turmoil – should we expect more of the same?

At Cazenove, we manage over £4bn for the Education sector, including multiple Independent Schools. As such, we are often asked about our views on markets and how the economic environment will impact reserves, spending decisions and long-term portfolio growth. For schools where fee decisions, capital programmes and long-term financial sustainability increasingly depend on resilient reserves and well-structured investment portfolios, these market developments have real implications. The start of a new year affords the opportunity to review and reset – what lessons can be learnt from the past and **how can we best position ourselves for the future.**

2025 review

As we reflect on 2025, it was very much a year that tested resilience and rewarded patience.

After an exuberant summer, global stocks edged higher into the year-end. While the final quarter of 2025 saw global equities deliver a positive return, markets had a more cautious feel as investors navigated the ongoing impacts of the US tariff regime, associated supply chain rerouting, the US government shutdown, a fragile de-escalation of hostilities in the Middle East and the emerging possibility of a ceasefire in Ukraine.

In the U.S. the S&P 500 gained new highs during December albeit investor ebullience was curbed by a “hawkish cut” to interest rates from the US federal reserve, signalling a slowing of the rate of the monetary easing that has underpinned much of the market’s rapid rise.

Similarly dampening the pace of the equity market rally were resurfacing concerns around over-extended valuations in certain pockets of the US technology sector. This hiatus in the tech sector’s leadership of global markets was accompanied by a notable resurgence in the fortunes of healthcare stocks where low valuations and resilient earnings growth were seen as attractive by investors seeking diversification.

Elsewhere, in the UK, the FTSE 100 weathered domestic political noise around the November Budget to extend an already exceptional 2025 return into the fourth quarter while Japanese markets also continued to make headlines as the Nikkei closed out Q4 near all-time highs, a beneficiary of AI-capex supply chains and a still-weak yen.

Against this backdrop, global equities ended the year +14.4% in sterling terms¹ – a remarkable turnaround from the lows in April. Schools with diversified portfolios will have benefited from the strong equity recovery late in 2025, supporting healthy reserve positions.

Outside of equities, core sovereign bond yields finished the fourth quarter a touch lower in the U.S., 4.2% on the 10-year, as markets absorbed the Fed’s third 0.25% cut of 2025 and guidance for a slower path in 2026. UK 10-year gilts hovered around 4.5% as the Bank of England delivered a closely split rate cut to 3.75% in December while reminding markets that “each further step is a closer call”.

For schools, we saw that elevated bond yields during parts of 2025 provided attractive opportunities for cash management albeit lower (and more volatile) gilt yields influenced financing assumptions for campus development projects.

Despite a broadly resilient global growth picture, Brent crude fell into the low-\$60s amid rising supplies and a reduction in geopolitical tension in the Middle East. By contrast, precious metals delivered a standout return. Gold moved to record highs, supported by a softer dollar, continued central bank buying and demands for a safe haven.

2026 outlook

At the time of writing, markets and the global economy have started 2026 with positive momentum. Global growth remains resilient (despite talk of a slowdown) while looser monetary and fiscal policies should continue to support activity. The gradual implementation of tariffs has so far helped to keep inflation contained, but supply shocks and AI bubble risks will remain a concern.

Questions over the fiscal sustainability of many large economies (USA, parts of Europe, Japan, China) continue to increase in significance as voters and leaders in these countries seem unwilling to tolerate the changes required to bring debt levels under control. When this will really matter is hard to determine, but the consequences are being seen in the rise of gold and jitters in bond markets. The combination of high debt and large fiscal deficits mean that central banks may need to step in and bring interest rates under control.

We are also reviewing the longer-term consequences of a more protectionist and transactional US government approach to policy making. These actions are yet to fully play out, with governments of US allies and adversaries each considering how their priorities and policies need to adjust. We are already seeing some signs of changing foreign relationships, with a partial thawing in India / China relations, and recent trade deals announced between Europe and Latin America as well as Canada and China.

Consumers and companies should benefit from falling interest rates, though this will take time to feed through into the real economy. Inflation is easing, but not gone, and we might start to see companies pass on more of the cost of tariffs to consumers by raising prices.

During 2025, corporate earnings bucked the usual trend of drifting lower over the course of the year despite a tariff-related dip in March. Earnings have been supported by corporate investment, especially in AI-related infrastructure, but also the continued strength of the US consumer. Employment has softened at the margin in the US and labour markets remain broadly healthy. Crucially, wages are still rising even after adjusting for inflation, underpinning demand and we expect further earnings growth in 2026.

As a result of strong performance in 2025, equity valuations now look expensive compared to long-term averages across a range of metrics. This suggests that markets are pricing in favourable outcomes on the economy, the impact of US tariffs and the impact of AI. We are also conscious around concerns of a bubble in parts of the market. The reason for caution is not so much valuation in itself; it’s whether the largest technology companies will make a reasonable return on their huge bets on AI to justify their current share prices. Given that today’s technology champions now rival major economies in scale, their fortunes will have a big impact on the direction of markets.

Government debt levels are also very high in many major markets and set to rise further. We are concerned about the inflationary impact of higher government spending, and lower interest rates. It’s a worrying combination for bond markets.



¹ Past performance is not an indicator of future results and may not be repeated. Source: Cazenove Capital, 31 December 2025. Global equities denoted by MSCI ACWI performance.

Implications for the sector

For Independent Schools, these macroeconomic dynamics coincide with a period of significant sector change. The introduction of VAT on school fees is leading many schools to reassess fee strategy, bursary commitments and short term liquidity needs. Meanwhile, demographic pressures and rising staffing and compliance costs underscore the importance of long term, inflation beating investment returns. In this environment, well structured reserves play a crucial role in maintaining competitiveness, smoothing fee volatility and supporting capital planning.

Alongside macroeconomic forces, Independent Schools face affordability headwinds driven by a shrinking school-age population and cost-of-living pressures on parents. This increases the strategic importance of long-term investment returns in supporting bursary provision, competitiveness and fee stability.

Staffing remains the largest cost for schools, and rising payroll, safeguarding and estate-compliance requirements reinforce the need for stable investment income streams.

We also observe increasing interest from governing bodies in aligning investment policy with ESG considerations—particularly climate transition, responsible stewardship and alignment to school values.

Summary

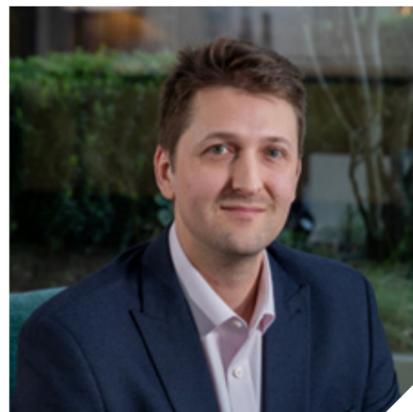
The question isn't whether risks exist – they clearly do – so staying agile this year will be important. Solid economic growth, with support from government spending and lower interest rates, should keep earnings growing and may allow stretched valuations to persist. But disappointment over AI or a bond market upset could reverse gains in markets. We're positioned for the former while being prepared for the latter – and remain open-minded about what 2026 will bring.

To help schools navigate an increasingly uncertain environment, we have recently updated our guidance on Investment Policy Statements. This is to help organisations produce a robust policy and, importantly, ensure their financial objectives align with their mission. Common areas of focus include:

- ◆ Liquidity rules
- ◆ Separation of short term reserves vs long term endowment
- ◆ Spending rules
- ◆ ESG / ethical considerations
- ◆ Risk-budget definition

We are hosting a number of events which can be found on our website:

<https://www.cazenovecapital.com/en-gb/uk/charity/events/charity-authorized-investment-fund/>



Ben Minter

Portfolio Director, Cazenove Capital
T: +44 20 7658 4397
E: ben.minter@cazenovecapital.com



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Managing risks around visa conditions and working hours

In recent months we have seen the authorities increase their oversight of visa related employment and general working conditions. Where schools have been found to have fallen short of the required regulations, fines can be significant, and we have seen these being issued in excess of £20k per employee. Now is the time to review your internal procedures and ensure that you have robust systems in place to monitor these arrangements. Within this insight we consider two areas which can present significant challenges to anyone engaging an employee on a work visa.

Employers have a duty under UK Home Office rules to ensure that all workers have the appropriate immigration status and are working in line with their visa conditions. Failure to comply can result in severe consequences, including civil penalties, reputational damage, loss of sponsorship licence, and even criminal sanctions in certain cases. Two common areas of risk are:

- ◆ **Workers who have exceeded the validity of their visa** (overstayers).
- ◆ **Workers who are working longer hours than permitted under their visa** (hours worked in excess of those specified by your sponsor in your Certificate of Sponsorship (CoS)).

Key considerations for organisations

- ◆ **Right-to-Work checks:** Employers must carry out right-to-work checks before employment begins and at prescribed intervals. These checks need to be documented, stored securely, and updated when visas are due to expire.
- ◆ **Visa expiry monitoring:** Schools should have a robust system for tracking visa expiry dates and renewal requirements, with reminders in advance of critical dates.
- ◆ **Working hours restrictions:** Where employees are subject to capped working hours, employers must implement systems to track actual hours worked across all roles within the business (and, where possible, across group entities). This includes monitoring overtime and casual hours.
- ◆ **Sponsor licence duties:** Employers holding a sponsor licence have an additional duty to report changes in employees' circumstances (e.g., role, hours, immigration status) within strict Home Office deadlines.
- ◆ **Data privacy:** While monitoring immigration status and working hours, schools must ensure compliance with data protection requirements, particularly when storing employee immigration documents.

Processes you should have in place

- ◆ **Centralised compliance register:** Maintain a central record of all employees' immigration status, visa conditions, expiry dates, and permitted working hours.
- ◆ **Automated alerts:** Use HR or compliance software to flag upcoming visa expiries or breaches in working hours.
- ◆ **Manager training:** Line managers should be trained to understand the restrictions on working hours and visa compliance, as they are often closest to monitoring daily activity.
- ◆ **Periodic audits:** Conduct regular internal audits to confirm compliance with immigration requirements, including sampling timesheets against visa conditions.
- ◆ **Escalation procedures:** Establish a clear process to escalate potential breaches quickly, ensuring that remedial action is taken and reported to the Home Office where required.
- ◆ **Engagement with workers:** Proactively communicate with employees about their obligations to inform HR of changes in status, renewals, or potential breaches.

National minimum wage

The second area is National Minimum or Living Wage, where the level of complexity within the regulations can also have significant consequences for employers. Again, failure to fully comply with the regulations can result in significant financial implications including the need to repay any underpayment of earnings, exposure to penalties and reputational risk with the possibility of being 'named and shamed'.

The following is a summary of the key considerations that you will need to consider for your organisation.

Key considerations for organisations

- ◆ **Working time accuracy:** Schools must ensure all hours actually worked are recorded, including travel time whilst attending events held 'offsite' such as school excursions, attending sports tournaments, theatre trips etc. This can raise specific questions from HMRC such as: how accurate are your working time processes? Do they capture all the hours that are being worked? Do they consider special working arrangements?
- ◆ **Pay calculations:** Schools need to calculate the hours worked as per the pay reference period, which could be weekly, four weekly or monthly and not on a cumulative basis. Are you excluding bonuses and overtime premiums from the minimum pay calculations? Not accurately monitoring the hours worked in a particular pay period can lead to issues of non-compliance with the visa regulations noted above.

- ◆ **Deductions from pay:** It is not uncommon for deductions to be made from an employee's pay and where these are made, whether it is from gross or net pay, for example: uniforms, meals, accommodation, they will have an impact on the pay calculation. Any deductions made by the employer, whether it is from gross or net pay must not bring the employee's pay below the NMW limits.
- ◆ **Record keeping:** Employers are required to maintain detailed pay and hours worked records for all employees for at least the past six years. Is this something you are doing? Do you regularly review compliance with the NMW regulations?
- ◆ **Policies and contracts:** It is essential that your employment contracts clearly define working hours, how breaks are treated as well as the expectations of both you, as the employer, and your employees. Are policies in place for travel time, sleep-ins and training, changes of working arrangements. What information is provided to staff, regardless of whether they are full, part-time or employed via a zero-hours contract.



Action points and where we can assist

HMRC are carrying out NMW reviews, which from April 2026 will become the responsibility of the new Fair Working Agency. Both organisations will be making use of AI technology to interrogate data they already hold, such as payroll RTI submissions, to identify any potential compliance failures. If HMRC should undertake an NMW review, you will need to ensure that you can provide answers to the questions/issues set out above? So what can you do now?

- ◆ **Proactive risk management:** To avoid falling foul of immigration rules, schools should move beyond reactive compliance and adopt a proactive, risk-based approach. We can help review your current risk management processes and help you to improve management and governance in this area.
- ◆ **Risk assessments:** Incorporate immigration compliance into wider risk assessments, particularly in industries with high reliance on overseas workers. Consider carrying out checks on your current data and processes to help you manage compliance.
- ◆ **Scenario planning:** Consider potential impacts of workers overstaying or exceeding visa conditions on operations and client service delivery. What are your contingency plans and levers that you can apply to help business continuity?

- ◆ **Governance oversight:** Ensure immigration compliance is regularly reported to senior leadership, with clear accountability for monitoring.
- ◆ **NMW monitoring:** Review your systems which monitor the actual hours worked and calibrate these against the employees hourly rates of pay. Carry out spot checks on your data to help ensure your continued compliance with the regulations and identify any gaps in your systems.
- ◆ **Record keeping:** Ensure you are reviewing employees pay and deductions as part of your monthly payroll processing.
- ◆ **Policies and contracts:** You need to ensure these are regularly reviewed and updated. We are able to review and provide comment on the current policies and contracts to enhance your documentation.
- ◆ **Continuous improvement:** Review lessons learned from any breaches or near misses, and update processes accordingly.

Summary

All schools face considerable challenges especially in terms of staff resourcing. However, it is important to ensure your compliance obligations, whether that is to the Home Office, HMRC or eventually the Fair Working Agency are fully maintained.

If you need assistance in reviewing any of these areas, please contact Rakesh Vaitha, Risk Assurance Director, or Nick Bustin, Director, Head of Employment Tax.



Nick Bustin
Employment Tax Director
T: +44 20 7969 5578
E: nbustin@haysmac.com

Business resilience and third-party risk management

Independent schools operate in a uniquely challenging risk environment. As institutions dedicated to welcoming, protecting, educating and developing young people, they face ever-more complex internal and external pressures, from financial volatility and staffing challenges to cyber threats and supply-chain dependencies. A robust approach to business resilience and third-party risk management is no longer optional, **it's central to safeguarding operations, reputation and long-term sustainability.**

Current risk landscape

Research from the *Independent Schools Risk Barometer 2024* highlights the pressing strategic threats facing the sector. School leaders identify financial pressures linked to rising operational costs, recruitment and retention difficulties, safeguarding concerns and estate management as key risks. These risks, if unmanaged, can directly undermine a school's ability to deliver teaching excellence.

Beyond these core areas, digital transformation and third-party dependencies have created added layers of vulnerability. Independent schools increasingly rely on external suppliers for cloud-based systems, network services, outsourced IT support, curriculum platforms, catering, transport, and professional services. While these relationships are vital for efficient operations, they also extend the school's risk surface into areas often outside direct control.

Cyber threats, particularly ransomware, phishing, malware and cloud supply-chain vulnerabilities are rapidly rising in the education sector. Schools remain attractive targets due to the volume of sensitive student and staff data they hold, and many lack the specialised cybersecurity resources found in larger organisations.

Third-party risk matters

Failing to understand or manage third-party risk has real, material consequences for independent schools:

- ◆ **Service disruption:** Loss of access to core administrative systems can disrupt learning, assessment and communication.
- ◆ **Financial impact:** Reactive recovery efforts, technical support and reputational damage can lead to unbudgeted expenditure.
- ◆ **Data breach fallout:** Student, staff and parent personal data may be exposed through third-party vulnerabilities, triggering legal, regulatory and reputational damage.
- ◆ **Erosion of trust:** Parents, staff and regulators expect strong resilience planning and failure to demonstrate it can weaken stakeholder confidence.

These impacts ripple into governance oversight, risk registers, board reporting and external assurance processes, and can weaken a school's competitive position in a crowded market.

Approaching resilience and third-party risk

Management should approach business resilience and third-party risk management as integrated and strategic activities, not as reactive action or control. A practical framework should include the follows areas:

1. Map critical services and suppliers

- ◆ Create an inventory of all third parties by service type, scope of access to school data or operations, and criticality to teaching and business continuity.
- ◆ Categorise suppliers by risk type (e.g. cyber-enabled, operational dependency, financial exposure).

2. Perform risk assessments

- ◆ Assess likelihood and impact for each critical third-party relationship and embed findings in the risk register.
- ◆ Include scenarios such as prolonged supplier outages, cyber incidents, insolvency of key providers, or regulatory non-compliance.

3. Strengthen contracts and controls:

- ◆ Embed clear performance standards, resilience expectations, security requirements, and breach notification clauses in supplier contracts.
- ◆ Establish rights to audit or assess key controls where feasible.

4. Integrate with business continuity planning:

- ◆ Include supplier dependency scenarios in business continuity exercises and test recovery plans involving key third parties.
- ◆ Train staff and raise awareness on continuity roles and communications protocols in case of disruptions.

5. Monitor, review and report:

- ◆ Maintain continuous oversight of supplier performance and risks through KPIs, dashboards and regular board reporting.
- ◆ Update the risk register and mitigation plans in response to market changes or incident reviews.

Effective risk management should be embedded into governance processes and should inform strategic decision-making, not merely sit as a compliance activity.

Taking practical steps to gauge and improve maturity

To assess maturity in managing resilience and third-party risk, school leadership can adopt the following practical steps:

- ◆ Conduct a risk maturity assessment by using a structured tool to benchmark governance, risk processes, incident response capabilities and supplier risk oversight against sector standards.
- ◆ Scenario testing and facilitate tabletop exercises that involve critical third-party interruptions to validate continuity plans.
- ◆ Governance oversight by elevating risk reporting to the Board of Governors and ensure alignment with strategic objectives and long-term planning.
- ◆ Training and awareness and provide targeted risk training for senior leaders, bursars, IT managers and procurement teams.



Rakesh Vaitha
Director, Risk Assurance & Advisory Services
T: +44 20 7969 5629
E: rvaitha@haysmac.com



Schools Team

If you need guidance on any audit and accounting, financial reporting, statutory obligations, funding, VAT, employment tax or direct tax matters you can **contact any member of our Schools team.**



Jane Askew
Partner, Head of Education
+44 20 7969 5683
jaskew@haysmac.com



Tracey Young
Senior Education Partner
+44 20 7969 5654
tyoung@haysmac.com



Lee Stokes
Partner
+44 20 7969 5656
lstokes@haysmac.com



Phil Salmon
Partner, Co-Head of VAT
+44 20 7969 5611
psalmon@haysmac.com



Kathryn Burton
Partner
+44 20 7969 5515
kburton@haysmac.com



Tom Wilson
Partner
+44 20 7969 5697
twilson@haysmac.com



Steve Harper
Partner, Head of Social Purpose
+44 20 7898 3567
sharper@haysmac.com



Adam Halsey
Partner
+44 20 7969 5657
ahalsey@haysmac.com



Richard Weaver
Partner
+44 20 7969 5567
rweaver@haysmac.com



Jackson Berry
Director
+44 20 7151 4400
jberry@haysmac.com



Nick Bustin
Employment Tax Director
+44 20 7969 5578
nbustin@haysmac.com



Louise Veragoo
Direct Tax Director
+44 20 7969 5682
lveragoo@haysmac.com

Upcoming events programme

We have one of the largest education and social purpose teams in the country: we act for over 800 clients, accounting for approximately 30% of our annual turnover. Our team of specialists host topical seminar updates and speak at other organisations' events presenting the latest developments within the not for profit sector. Get in touch with events@haysmac.com should you wish to book on to any of our events.

AGBIS Conference

19 March 2026
09:00 - 17:15
Queen Elizabeth II Centre, Westminster, London

Trustee Training: Charity law update

24 March 2026
13:30 - 17:00
Online

Trustee Training: Introduction to charity finance

09 April 2026
13:30 - 17:00
Online

Quarterly Charities Update

22 April 2026
10:00 - 11:30
Online

Trustee Exchange

28 April 2026
09:00 - 17:00
BMA House, London

ISBA Conference

11 May - 13 May 2026
ICC Wales, Newport, South Wales

SORP in Practice: Recap for Charities

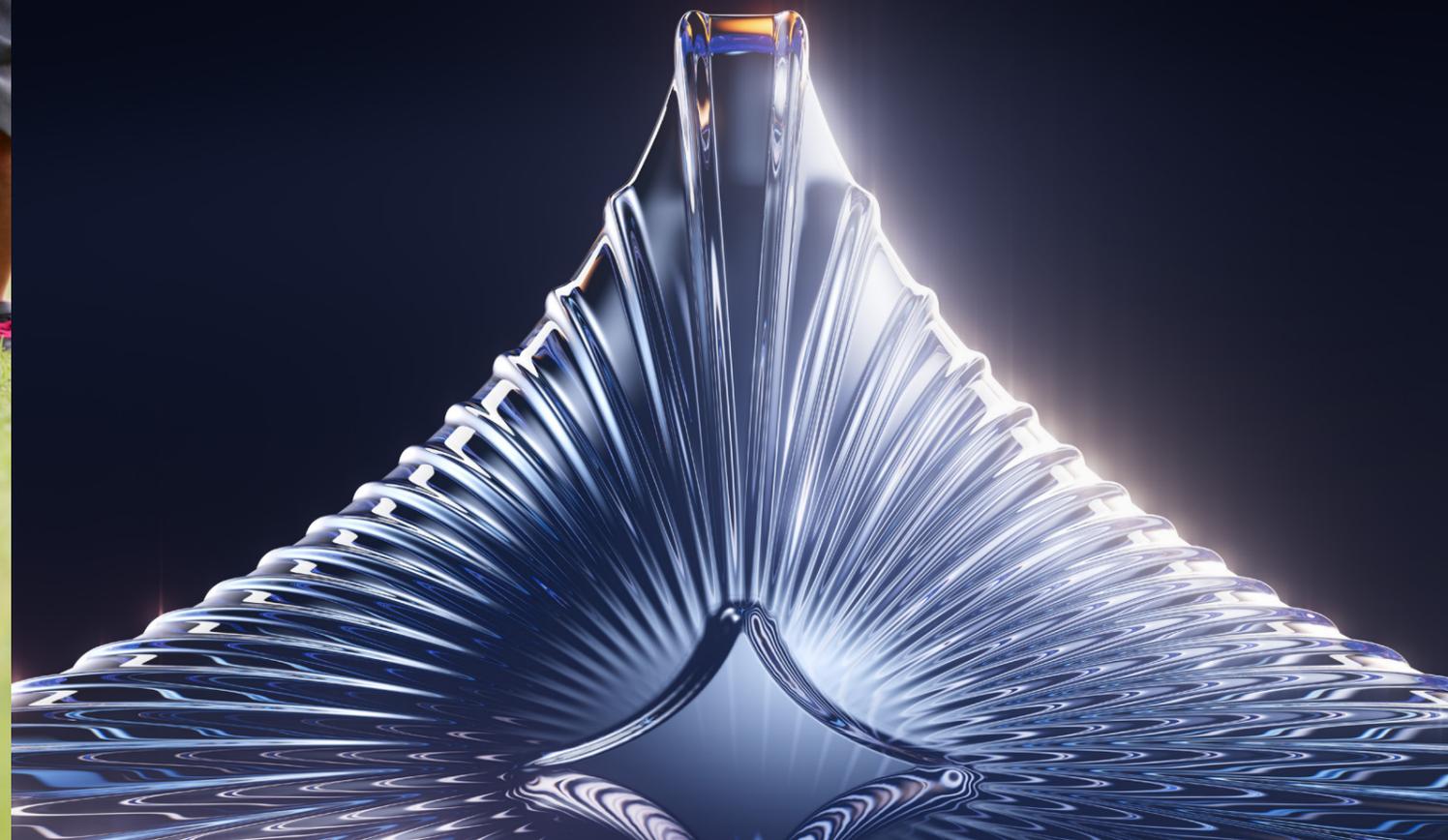
21 May 2026
10:00 - 11:00
Online

Quarterly Charities Update

02 July 2026
10:00 - 11:30
Online



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10 Queen Street Place
London EC4R 1AG

T 020 7969 5500
E marketing@haysmac.com

haysmac.com

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