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Schools Briefing

HaysMac

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Welcome from the editor



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Welcome to the latest edition of our Schools Briefing for independent schools, where we provide updates and insights on accounting, tax, employment, reporting, governance and wider issues affecting the sector.

To begin, Rakesh Vaitha, Risk Assurance and Advisory Services Director, considers the growing challenge of AI governance for boards and audit committees. He looks at the importance of understanding where AI is being used, the risks involved and the controls organisations should have in place.

Our first guest author, Davide Persechino, Relationship Director at Barclays, shares a lender's perspective on what makes an independent school resilient. He considers why strong governance, local market insight and joined-up strategic decision-making can be just as important as financial performance.

Phil Salmon, Partner and Co-Head of VAT, provides an update on changes within the VAT system, including proposals around supplementary data and Direct Debit payments. He also looks ahead to electronic invoicing and considers recent changes to the Capital Goods Scheme.

Our second guest author, Alice Reeve, Employment Partner at VWV, looks at changes to workplace harassment legislation from October 2026. She considers the strengthened duty to prevent sexual harassment, new protections against third-party harassment and the practical steps schools should be taking now.

Nick Bustin, Employment Tax Director, looks ahead to the phased introduction of mandatory payrolling of Benefits in Kind from April 2027. He outlines what the changes will mean for employers and why schools should begin reviewing their systems, processes and employee communications ahead of implementation.

Finally, Jackson Berry, Director, considers the new company size thresholds and what they mean for independent schools. He looks at how the changes interact with charity reporting requirements and the revised Charities SORP, and what schools should consider as the financial reporting landscape evolves.

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.

AI Governance: The next challenge for Boards and Audit Committees

Artificial intelligence is rapidly becoming embedded within day-to-day business operations. What started as employees experimenting with tools such as ChatGPT has evolved into organisations deploying AI capabilities within customer service platforms, finance processes, human resources activities and decision-making tools.

As adoption increases, so does the risk profile

Many organisations are still at an early stage of understanding where AI is being used, who is accountable for it and whether appropriate controls are in place. Whilst considerable focus has been placed on acceptable use policies, these arrangements alone are unlikely to provide sufficient oversight as AI becomes more integrated into business-critical processes.

The challenge facing boards is therefore no longer whether AI should be permitted within the organisation. The challenge is ensuring that its use is governed appropriately, the risks are understood and management can demonstrate that effective controls are operating.

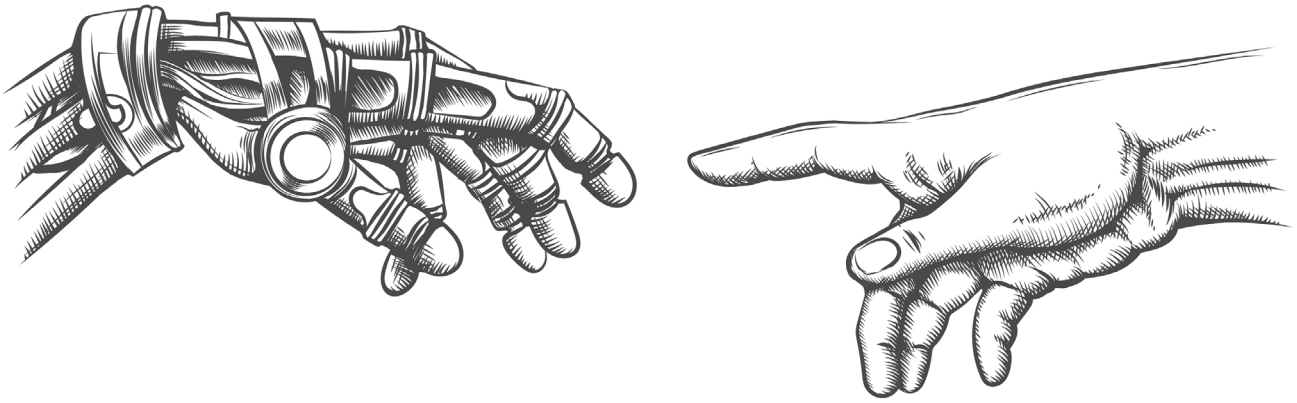
Why AI risk is different

Traditional technology systems generally perform predefined tasks within agreed parameters. AI introduces a different set of considerations.

Increasingly sophisticated AI tools can analyse information, generate content, make recommendations and, in some cases, take actions across connected systems. As organisations explore the use of AI agents and automated decision-making tools, the associated risks extend beyond inaccurate outputs and begin to encompass operational, financial, cyber security, regulatory and reputational risks.

Recent industry incidents have highlighted concerns relating to data exposure, unauthorised access to systems and unexpected system behaviour. Whether or not organisations are directly deploying advanced AI agents today, these developments demonstrate the speed at which the technology is evolving and the importance of maintaining effective oversight.

From a risk management perspective, the key question becomes: Does the board have confidence that AI is operating within defined parameters and that appropriate safeguards exist where things go wrong?



AI Governance is more than an AI policy

One of the most common observations emerging across organisations is the belief that an AI policy equates to AI governance. Whilst policies provide an important foundation, effective governance requires considerably more than guidance for employees on acceptable use.

Organisations should be able to demonstrate:

- Clear accountability for AI-related decisions.
- An understanding of where AI is deployed across the organisation.
- A process for assessing risks before implementation.
- Appropriate controls over data, security and access permissions.
- Human oversight of AI-supported decisions.
- Ongoing monitoring and periodic independent assurance.

In simple terms, organisations should govern AI in the same way they govern any other enterprise risk.

Key areas for board oversight

Boards and audit committees should seek assurance over several key areas:

1. **AI Inventory:** Many organisations cannot currently provide a complete picture of where AI is being used. This includes both formally approved solutions and tools adopted independently by employees. Without visibility, meaningful governance becomes difficult.
2. **Data protection and confidentiality:** AI tools often rely on large volumes of data. Organisations should understand what information is being processed, where it is stored and whether appropriate safeguards exist to protect confidential or personal information.
3. **Cybersecurity and access controls:** As AI capabilities become more integrated with organisational systems, access management becomes increasingly important. Questions should include:
    - What systems can the AI access?
    - What decisions can it make?
    - What actions can it perform?
    - Are permissions proportionate and regularly reviewed?
4. **Human oversight:** Management should be able to explain how human judgment remains involved in key decisions. This is particularly important where outputs may influence customers, employees, financial decisions or regulatory compliance.
5. **Monitoring and assurance:** Governance arrangements should extend beyond implementation. Regular monitoring, management reporting and independent assurance activities can help identify emerging risks and provide confidence that controls remain effective as AI use evolves.

Questions board and audit committees should be asking

When considering the AI governance arrangements, board and audit committee members should ask the following questions:

- Does management know where AI is being used across the organisation?
- Has AI usage been risk assessed?
- Are roles and responsibilities clearly defined?
- What controls exist over data shared with AI platforms?
- How are AI suppliers assessed and monitored?
- How are AI-related incidents identified and escalated?
- Is there evidence of ongoing monitoring and review?
- Has independent assurance been undertaken over AI governance arrangements?

The answers to these questions often provide a useful indication of the maturity of the organisation's governance framework.

Conclusion

AI presents significant opportunities for organisations, but it also introduces a range of risks that require active oversight.

From a board, management and risk management perspective, the objective should not be to slow innovation or prevent adoption. Instead, organisations should focus on establishing clear accountability, proportionate governance arrangements and effective controls that enable AI to be used safely and responsibly.

Ultimately, boards should be able to answer three fundamental questions:

- Where are we using AI?
- What are the key risks?
- How does the board know those risks are being managed effectively?

If management cannot answer those questions with confidence, AI governance is unlikely to be sufficiently mature.



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What banks look for in a resilient independent school

Why governance, local insight and joined-up decision-making can matter as much as the numbers.

When a bank considers lending to an independent school, the financial questions, quite correctly are expected. Is there enough cash to service debt? Are the covenants realistic? What security is available? Are pupil numbers stable? Of course, these questions are important and fundamental for both the school and bank in ascertaining the feasibility of any finance provision.

However, in more than 16 years working with independent school clients, and now, more than ever, I have found that the most important conversations are not limited purely to 'the numbers.'

In an increasingly uncertain environment, resilience for an independent school cannot, and indeed, should not, be measured by a surplus alone. Lending decisions, likewise, should not be assessed solely on historic track record of surpluses, healthy LTVs and robust cashflows. All these are great, but banks need to look beyond this and understand the resilience of a school going forward, anchored in their wherewithal to navigate increasingly choppy waters.

The Cambridge dictionary defines resilience as: *the ability to bounce back, recover quickly, and adapt after facing trouble, hardship, or damage.*

The above is only possible if the school has the leadership, management and governing body that works together.

The governing body: the first line of resilience

Banks look closely at the governing body. Commitment is rarely in doubt; the real question is whether the board has the mix of skills needed to oversee a complex organisation in a changeable environment.

A strong board usually combines educational experience with expertise in finance, property, risk, law, safeguarding, people and technology. It knows where the gaps are and recruits accordingly. It also understands the line between governance and management: supporting the head and bursar while still challenging assumptions.

Healthy challenge is a good sign. The best boards ask what happens if pupil numbers fall, a building project overruns, fee debt rises or a key executive leaves. They expect timely information and track early warning signs. They also plan for succession. Resilience should never depend on one outstanding head, bursar or chair.

Know the local market, not just the national narrative

National trends matter, but every school's market is local. Demand can vary sharply within a few miles because of transport, housing, demographics, local employment and competition. Indeed, it is difficult to think of another sector where such localism is at play.

A resilient school understands where its pupils come from, how its catchment is changing and where demand may weaken. It tracks enquiries, applications, acceptances and retention, and knows whether its offer remains distinctive and affordable. It has the data to understand local competition and the changing face of its market. All this gives banks confidence that a school has the information to build a credible strategy for the future.

Strategy that makes choices

A credible strategy connects educational purpose, the operating model and the financial outcome. Why is a capital project needed? What assumptions support it? Could it be phased? What happens if recruitment is weaker than planned? Strong boards are also willing to consider difficult options early: collaboration, shared services, asset use, merger or a controlled reduction in costs.

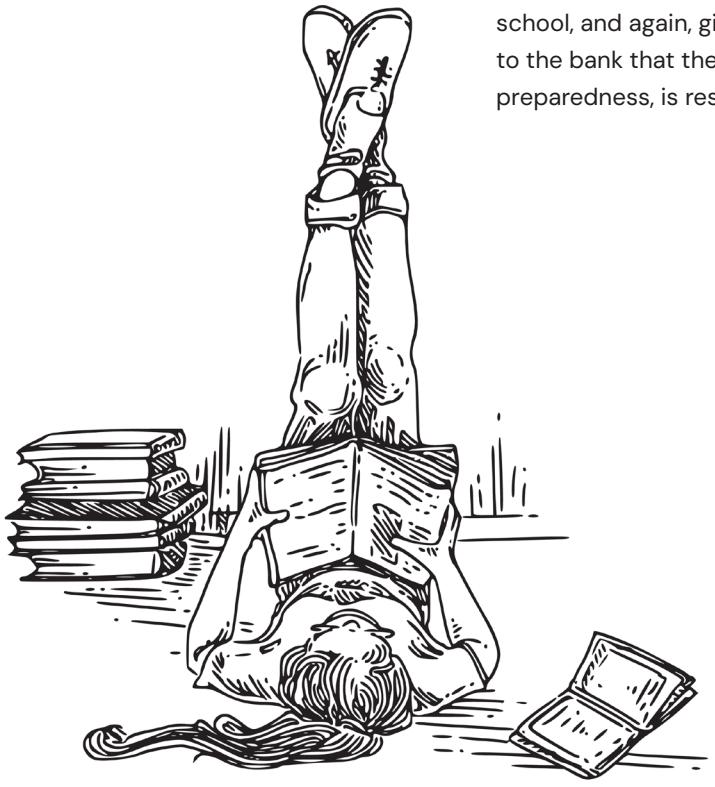
The downside risk should be reviewed. Forecasts should test pupil loss, fee increases, salary inflation, interest costs and capital spending. By considering such scenarios it will help the school prepare. It is good practice to share these forecasts with your bank, discuss them openly and honesty. Any Relationship Manager worth their salt will appreciate your approach and will work collaboratively with you to help your planning.

Joined-up policies: where resilience becomes operational

Policies can look administrative, but together they show whether a school can turn good intentions into consistent action.

Late fees are a good example. Families may be facing genuine difficulty, so the approach needs empathy as well as consistency. Clear payment terms, escalation routes and authority for payment plans are important. So is communication between admissions, finance and pastoral teams. Rising arrears may signal wider affordability pressures.

It is certainly my experience that in the last 16 years of working with the sector that the compliance workload and expectation on schools, let alone Bursars, has grown considerably. Safeguarding, health and safety, employment, data protection and cyber security can all carry financial and reputational consequences. Policies and procedures that are in place, reviewed regularly, with clear accountability, contingency and operational actions that are understood are key in protecting the school, and again, give confidence to the bank that the school, in its preparedness, is resilient.



The numbers still matter, but they are the outcome

Of course, the numbers matter. Banks will assess performance, cash flow, debt affordability, covenants and security, but these figures only tell part of the story.

Behind them sit the qualities that make a school genuinely resilient: strong governance, timely information, local insight and the confidence to act early.

The strongest schools are not always those with the largest reserves or longest waiting lists. They are the ones that understand their communities, recognise change early and make choices before circumstances make them.

My advice is simple: talk to your bank early and keep the conversations open. A strong relationship is not built on presenting a perfect picture, but on two-way honesty, trust and a clear plan when challenges arise.

If you would like to discuss the challenges or opportunities facing your school, please feel free to get in touch.



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Schools and VAT: key changes ahead

A number of changes are due to take place within the VAT system over the next few years, and during the summer, the Government issued consultations about other potential changes. The timescale for responding to these consultations was very short, and prior experience suggests that these "consultations" are actually a done deal and will go ahead, though they may be modified if responses to them identify things that simply wouldn't be possible.



Supplementary data for VAT returns

One of the consultations says that the Government will explore whether better use of VAT data that businesses already hold in their digital accounting systems could help HMRC work more efficiently. The consultation says that the work will consider how data already held within the businesses' digital accounting systems for audit purposes could be used to support compliance and improve the effectiveness of the tax system. It goes on to say that engagement with stakeholders will inform any future decisions.

This is a potentially concerning measure which could extend the Making Tax Digital (MTD) programme. At present MTD simply requires that from the point of input of an income or expenditure entry, the process through to the submission of the VAT return figures is done electronically without manual intervention. But the only information that is submitted to HMRC are the figures on the VAT return itself which prior to MTD was largely submitted electronically in any event.

This development could potentially allow HMRC to look back up the electronic chain and automatically drill down into accounting packages to extract data. In theory, with the use of AI, HMRC could ultimately be able to conduct thousands of VAT inspections in real time and potentially without a taxpayer being aware it is happening.

Requiring payment of VAT and PAYE by Direct Debit

It was announced in the 2025 Budget that the Government intended to consult on making Direct Debit the mandatory payment method for VAT and PAYE return liabilities, subject to defined exceptions. The consultation, such as it was, ran from the end of June to 16 August (a similarly short timescale) also considered whether any enforcement arrangements or incentives would be appropriate.

This is a similarly concerning development which could allow HMRC to simply extract money from your bank account to pay a VAT liability. This could involve you being charged for setting up Direct Debit facilities and being charged if there are insufficient funds without allowing you to discuss payment plans in the event of a shortage of funding.

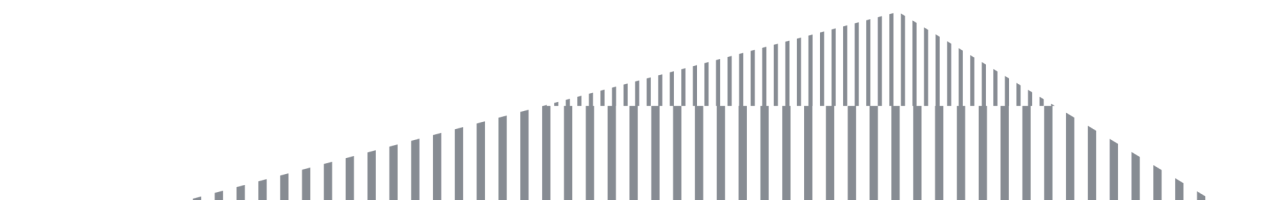
Electronic invoicing

Whilst it seems likely that the aforementioned measures will go ahead, it has already been confirmed that from 1 April 2029 onwards, it will be a requirement to issue VAT invoices electronically for all Business to Business and Business to Government transactions. The government has also announced that the electronic procurement system Peppol will be the core interoperability network for e-invoicing in the UK. It was stated by the Government that this will give software developers and taxpayers an indication of the direction of travel for our work towards the e-invoicing mandate in 2029, enabling them to begin planning their product development and rollout of e-invoicing. It went on to say that the Government will continue to engage with stakeholders regarding the role of legacy systems which cannot interoperate in the future system.

But, it failed to comment on the fact that this is an incredibly short period of time for software developers to design and roll out software, let alone for businesses to determine which one will work with their accounting package, and if none will, to potentially change their accounting package.

At this moment in time, the Government has decided against a centralised model whereby invoices are issued and then validated by the Government before being sent on to the customer.

Should such a real time reporting requirement be introduced, then along with payment by direct debit and access to supplementary data, Big Brother really will have arrived.



Capital Goods Scheme changes

Significant changes to the VAT Capital Goods Scheme (CGS) were introduced with effect from 29 July 2026. Why such a random date was chosen is anyone's guess, but under the new rules, the CGS threshold for land, buildings and civil engineering works has increased from £250k to £600k (exclusive of VAT), while computers and computer equipment have been removed from the CGS altogether.

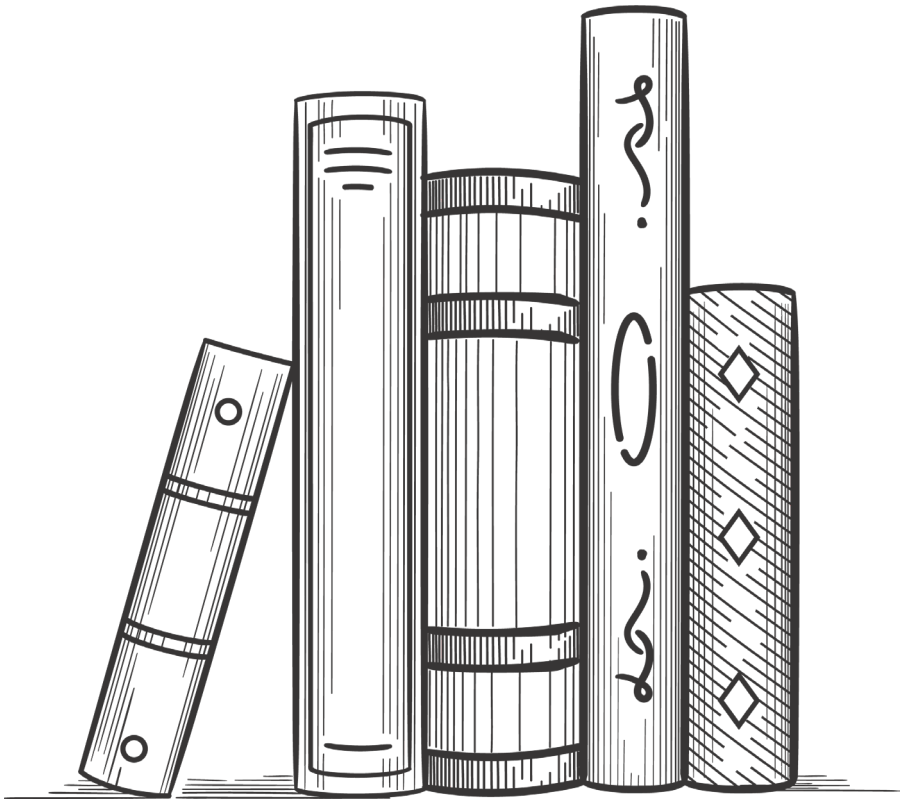
The important point to note is that the changes are not retrospective, so these changes only apply where the qualifying expenditure is incurred on or after 29 July 2026. The relevant Policy Paper said that *"Where an owner has incurred capital expenditure… before 29 July 2026, the changes made by this measure will not apply."*

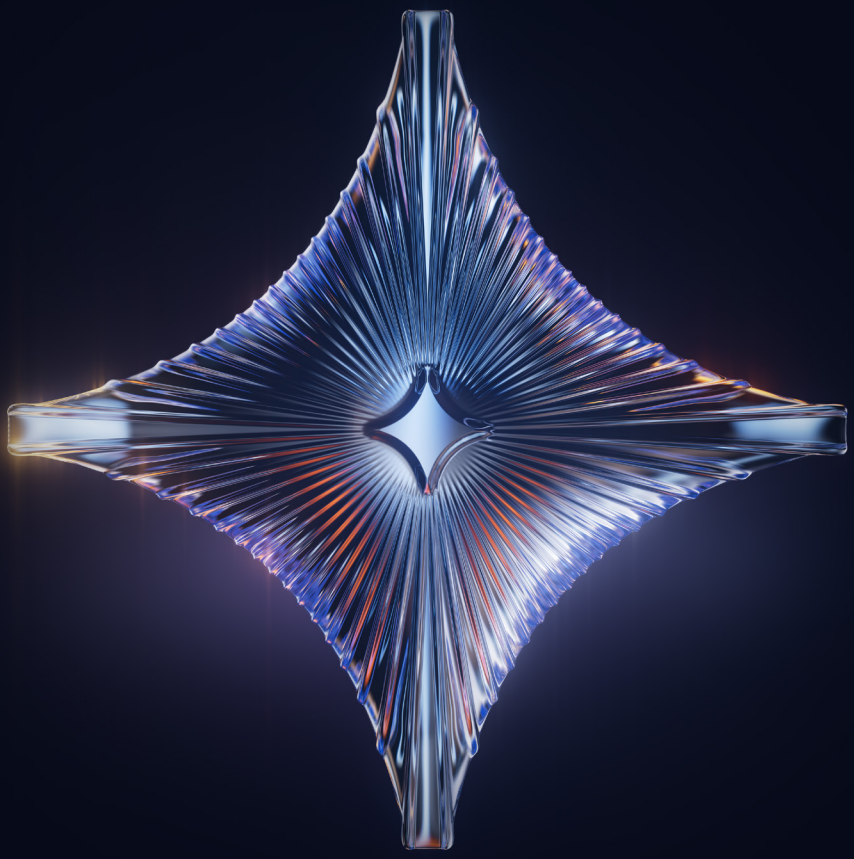
We have attempted to clarify what the position is for works which were underway on 29 July, but where the works were not complete and the owner has not made first use of the item and HMRC's response was that *"where capital expenditure has been incurred and a capital item has been created before 29 July, the changes made by the measure will not apply. This would be the case even where first use of that capital item is after 29 July."*

We then attempted to ascertain what HMRC meant by saying when "a capital item has been created" given that we had already referred to the situation being one where the works had not been completed and asked whether they meant that the capital expenditure had to have gone over either the £250k mark prior to 29 July or the £600k mark, but HMRC have not yet responded to the attempt at clarification we made on 18 July which is unsatisfactory (but sadly typical) given that many schools will carry out works over the summer period.



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Sexual harassment and third-party harassment: what schools need to know

From 30 October 2026, schools will be required to take all reasonable steps to prevent sexual harassment of their employees. New protection against harassment by third parties will also come into force. Schools should review their risks and preventative measures now, rather than waiting for further regulations or guidance.

The preventative duty: where are we now?

Since October 2024, schools have been under a legal duty to take reasonable steps to prevent sexual harassment of employees in the course of their employment. This is known as the preventative duty.

The duty is proactive and forward-looking. It is not enough for a school to have an anti-harassment policy and respond when an incident occurs. Schools should anticipate where sexual harassment could arise in their particular working environment, assess those risks and take reasonable steps to reduce them.

The Equality and Human Rights Commission (EHRC) makes clear that employers are unlikely to comply with the preventative duty unless they carry out a risk assessment. For schools, that assessment should reflect the realities of the particular setting. Areas of particular risk include where there is 1 on 1 working, areas of significant gender imbalance, or working takes place outside of standard hours or potentially in social settings.

Schools should therefore consider the nature and likelihood of the risks they have identified and the steps available to address them. Relevant factors can include the effectiveness of a particular measure, the school's size and resources, and the time, cost and disruption involved, weighed against the benefit the measure could achieve.

Breach of the preventative duty has real consequences. The EHRC can take enforcement action where an employer fails to comply. In addition, where an employee succeeds in an Employment Tribunal claim involving sexual harassment, compensation can be increased by up to 25% if the employer has also breached the preventative duty. More broadly, the duty requires schools to be able to demonstrate that they have actively considered sexual harassment risks and taken appropriate preventative action to protect their workforce and create a culture where harassment does not take place, rather than simply reacting to individual complaints.

What changes from 30 October 2026?

From 30 October 2026, the duty will be strengthened. Schools will be required to take "all reasonable steps" to prevent sexual harassment, rather than simply "reasonable steps".

What amounts to all reasonable steps will continue to depend on the circumstances. The new duty does not require a school to guarantee that sexual harassment will never occur. However, the explanatory notes to the Employment Rights Act 2025 indicate that an employer will have taken all reasonable steps where there are no further steps it could reasonably have been expected to take.

This makes a thorough and regularly reviewed risk assessment particularly important. Where a school identifies a measure that could reduce a particular risk, it should consider whether it is reasonable to take that step and record its decision.

Will regulations tell schools what they need to do?

Alongside the new obligations, from 30 October 2026, the Government will have a new power to make regulations specifying particular steps that are to be regarded as reasonable for the purposes of the sexual harassment duty. The legislation expressly provides that these could include requirements relating to risk assessments, plans or policies, reporting sexual harassment and handling complaints.

The existence of this power does not mean that schools will have a statutory checklist to follow from 30 October. The Government has described this as a power enabling regulations to be made at a later date, and the regulations would complement rather than replace the wider requirement to take all reasonable steps.

The Government has indicated that consultation will take place before regulations are introduced. This means that schools will initially be operating under the strengthened "all reasonable steps" duty without regulations or further detail setting out what is expected of them.

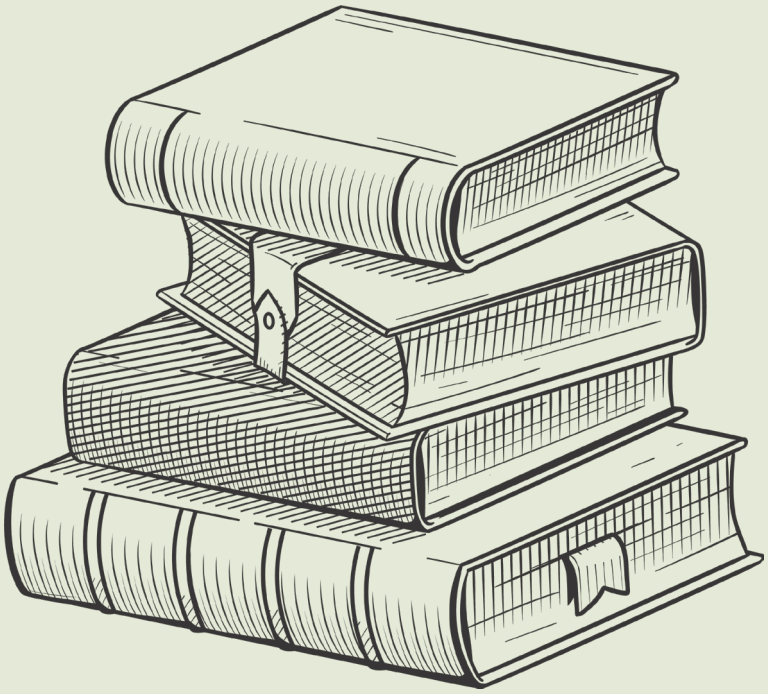
Most schools will already have taken action in this area, but should not wait for further regulations before considering any further steps that should be put into place.

In addition to the potential for further regulations, the EHRC's existing technical guidance and its eight-step guide are due to be updated to take account of the strengthened preventative duty. However, they already provide an important starting point. The eight-step guide recommends measures including an effective anti-harassment policy, engaging with staff, assessing and reducing workplace risks, effective reporting arrangements, training, appropriate handling of complaints and ongoing monitoring and evaluation.

Schools should review their existing arrangements against this guidance and, in particular:

- Revisit their sexual harassment risk assessment and ensure it reflects the risks within their particular setting;
- Identify the preventative measures that could address each material risk;
- Consider which of those measures it is reasonable to take and implement them;
- Ensure policies, training, reporting arrangements and complaint-handling procedures reflect the risks identified; and
- Keep the assessment under review as circumstances, working practices or identified risks change.

Crucially, schools should also keep a contemporaneous record of their decision-making. Where different preventative measures have been considered, it will be useful to record what was considered, the factors weighed in the balance and why particular measures were or were not considered reasonable. This can help the school demonstrate that its approach was genuinely risk-based and tailored to its circumstances, rather than a generic compliance exercise.



Third-party harassment

A separate and further change from 30 October 2026 will reintroduce employer liability for harassment of employees by third parties.

Currently, schools can be liable for harassment carried by their employees. From October a school may also be liable where an employee is harassed by a third party in the course of their employment and the school failed to take all reasonable steps to prevent the harassment.

This is particularly significant for schools because employees may have regular contact with a wide range of people who are neither employees nor representatives of the school, and the school has less control. Depending on the setting, third parties could include pupils, parents and carers, contractors, suppliers, visitors, alumni and members of the public.

The protection from third party harassment is not just limited to sexual harassment, it covers all forms of harassment under the Equality Act, including harassment related to age, disability, gender reassignment, race, religion or belief, sex and sexual orientation. An employee will be able to bring a standalone claim against their employer where third-party harassment is alleged.

This means schools need to look beyond their existing sexual harassment risk assessments. They should assess the risk of all relevant forms of third-party harassment.

Managing third-party harassment risks in schools

A useful starting point is to identify the different categories of third party with whom employees interact.

For each category, schools can consider the nature and frequency of contact, the particular harassment risks that might arise and the degree of control or influence the school can reasonably exercise over that relationship and how this may be strengthened. A school's ability to control the behaviour of an external contractor, for example, may be different from its ability to control a visitor.



That assessment should then inform the preventative measures adopted. Depending on the particular relationship and risk, schools might consider:

- Contractual requirements governing the behaviour of contractors and suppliers;
- Parent, visitor or community codes of conduct;
- Appropriate expectations within pupil behaviour policies;
- Including expectations within parent contracts;
- Clear procedures for employees to report third-party harassment;
- Escalation arrangements where inappropriate behaviour occurs;
- Training for employees and managers dealing with higher-risk interactions;
- Restrictions on contact with, or access to the school by, particular individuals where appropriate; and
- Physical or security measures where a risk assessment identifies a need for them.

Again, the important point is not simply to produce a list of possible measures. Schools should consider what is reasonable in relation to the particular risks and third-party relationships they have identified and record the reasoning behind their decisions.

This is not a one-off exercise but an ongoing obligation and schools should take time to regularly review the effectiveness of risk management measures, and whether these need to be adapted or strengthened. Feedback should be regularly sought and lessons should be learned from staff grievances, exit interviews or complaints.

What should schools do now?

The changes taking effect on 30 October make this a good time for schools to revisit their approach to workplace harassment as a whole.

The strengthened sexual harassment duty will require schools to take all reasonable steps before any regulations prescribing particular measures are introduced. At the same time, the new third-party harassment provisions require a broader assessment of the risks posed by the different third parties with whom employees interact.

A well-documented, school-specific risk assessment should therefore sit at the heart of preparations. Schools should be able to show not only what preventative measures they have put in place, but why they consider those measures appropriate in light of the risks within their particular setting.

Please do feel free to reach out directly should you have any questions.



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Mandatory payrolling of benefits in kind: Why employers must start preparing now!

HMRC has now provided further detail on its phased introduction of mandatory payrolling of Benefits in Kind (PBiK), confirming that real-time reporting of benefits through payroll will become a reality for most employers over the next two years.

HMRC's decision to delay and phase implementation, the latest announcements make it clear that businesses should not view the additional time as a reason to postpone preparations. For many organisations, the move to mandatory payrolling will involve significant changes to payroll, HR, benefits administration and employee communications.

The new timeline

HMRC confirmed a two-phase approach will be adopted based on benefit categories as opposed to employee headcount or size of the employer. We set out below when benefits will be subject to payrolling:

Phase 1: From 6 April 2027

Mandatory payrolling will apply to:

- Company cars
- Car fuel
- Vans
- Van fuel
- Employer-provided medical benefits

These benefits account for a substantial proportion of all benefits which are currently reported to HMRC on Forms P11D and will have the greatest impact.

Phase 2: From 6 April 2028

Mandatory payrolling will be extended to most remaining taxable benefits and expenses.

However:

- Employment-related loans, including director loan accounts; and
- Taxable living accommodation

will remain outside the mandatory regime. However, employers can choose to operate payrolling of both benefits on a voluntary basis (see further comments to come).

Why this matters

For many years, employers have been able to rely on the annual P11D process to identify and report taxable benefits after the end of the tax year.

The new regime fundamentally changes this approach. Instead of reporting benefits retrospectively, employers will need to identify, value and report taxable benefits throughout the year via payroll. Income Tax and Class 1A National Insurance will increasingly be accounted for in real time. The challenge for employers is not simply one of payroll compliance. This is a business transformation project that will require coordination between payroll, HR, finance, reward and benefits teams.



Strategic priorities ahead of Phase 1

Understand your current benefits population

Many employers have never undertaken a comprehensive review of all benefits currently reported on Forms P11D.

Now is the ideal opportunity to:

- Identify all benefits currently provided;
- Review how benefit values are determined;
- Identify who owns the underlying data; and
- Assess the quality of existing reporting processes.

Employers should not assume that existing P11D processes will automatically be suitable for real-time reporting.

Review data flows

One of the biggest practical challenges is ensuring that benefit information reaches payroll quickly enough. This reform will fundamentally change how benefits are taxed and reported.

The following are the areas employers need to address ahead of the Phase 1 and 2 deadlines:

Payroll

Employers will need to ensure payroll systems can manage real-time reporting, improve internal processes, and prepare employees for changes to how benefits are taxed.

Secondly, ensure the value of the benefits which are going to be payrolled are determined and steps are taken to ensure any changes in the benefit valuation are incorporated into your payroll reporting cycle.

Internal systems

Employers will need to ensure that all systems connected with the provision of benefits in kind will provide you with the best opportunity to manage payrolling of benefits. In addition to your payroll system, employers need to ensure HR and benefits platforms can collate data, for example, benefits reports and employee data so that accurate RTI submissions can be made to HMRC.

Governance procedures

Consider how you are going to track new joiners and leavers. Once employees are entitled to receive any benefits you will need to ensure any variations in the benefits provided are correctly captured.

Consequently, employers will need to review their processes for:

- New joiners
- Leavers
- Changes of company car
- Medical cover changes, such as extended cover and contributions towards family members being included in the scheme
- Salary sacrifice arrangements
- Increases or decreases in the cost of providing benefits.

How are you going to manage the position for employees where insufficient PAYE has been collected during the year? You may need to submit a P11D for the employees affected or revised RTI submissions.

Employee communications

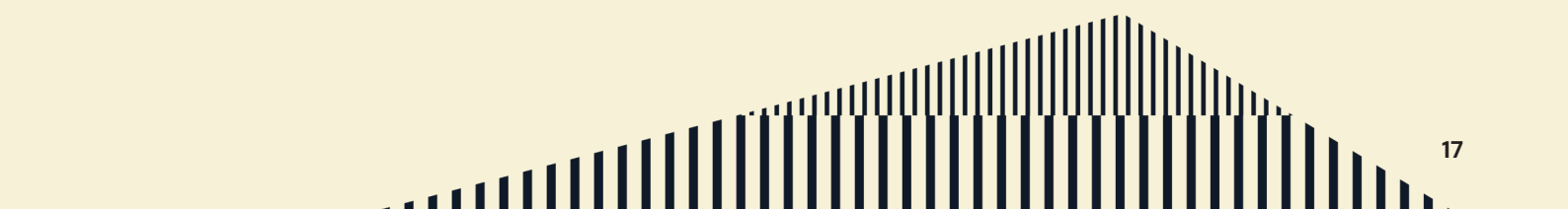
Employees will need to be advised about the introduction of PBiK and the impact it will have on the amount of tax which will be deducted from their salary. A clear communication strategy is recommended which can include staff briefings, written communications or both. However, doing nothing is not an option!

HMRC themselves have specifically highlighted the importance of employee communications. Many employees currently settle tax on benefits through adjustments to their tax code and may notice differences in their monthly net pay once benefits are processed through payroll.

Employers should consider a communications strategy covering:

- Why the changes are occurring;
- The impact on payslips;
- Tax code changes;
- The continued collection of previous year underpayments; and
- Who employees should contact if they have questions.

Early engagement should help minimise employee confusion and payroll queries.



Looking ahead to Phase 2

Although April 2028 may appear some distance away, employers should already be considering the wider implications of Phase 2.

Many businesses currently devote considerable time to producing annual P11Ds for a wide range of benefits. The move to real-time reporting provides an opportunity to:

- Simplify benefit processes;
- Eliminate manual reporting;
- Improve benefit governance; and
- Modernise payroll and reward operations.

Employers that wait until late 2027 to begin preparations may find themselves tackling significant implementation challenges alongside competing payroll and HR projects.

The voluntary payrolling opportunity

A particularly interesting feature of HMRC's latest guidance is the continued ability to voluntarily payroll benefits not included within Phase 1. HMRC has confirmed that a registration service for voluntary payrolling will open from November 2026 until 5 April 2027.

This creates an opportunity for employers to accelerate their transition to the new regime.

Rather than waiting for mandatory implementation, organisations may wish to consider voluntary payrolling of additional benefits from 2027 in order to:

- Reduce future reliance on Forms P11D;
- Test internal processes before Phase 2 becomes mandatory;
- Identify data and systems issues early;
- Familiarise employees with payrolled benefits; and
- Spread implementation costs over a longer period.

For some employers, a phased voluntary approach may prove more manageable than a large-scale transition immediately before April 2028.

Concluding thoughts

HMRC's phased approach provides welcome breathing space for schools, but it should not be interpreted as a delay to action. The move to mandatory payrolling represents the biggest change to the taxation of employee benefits for many years.

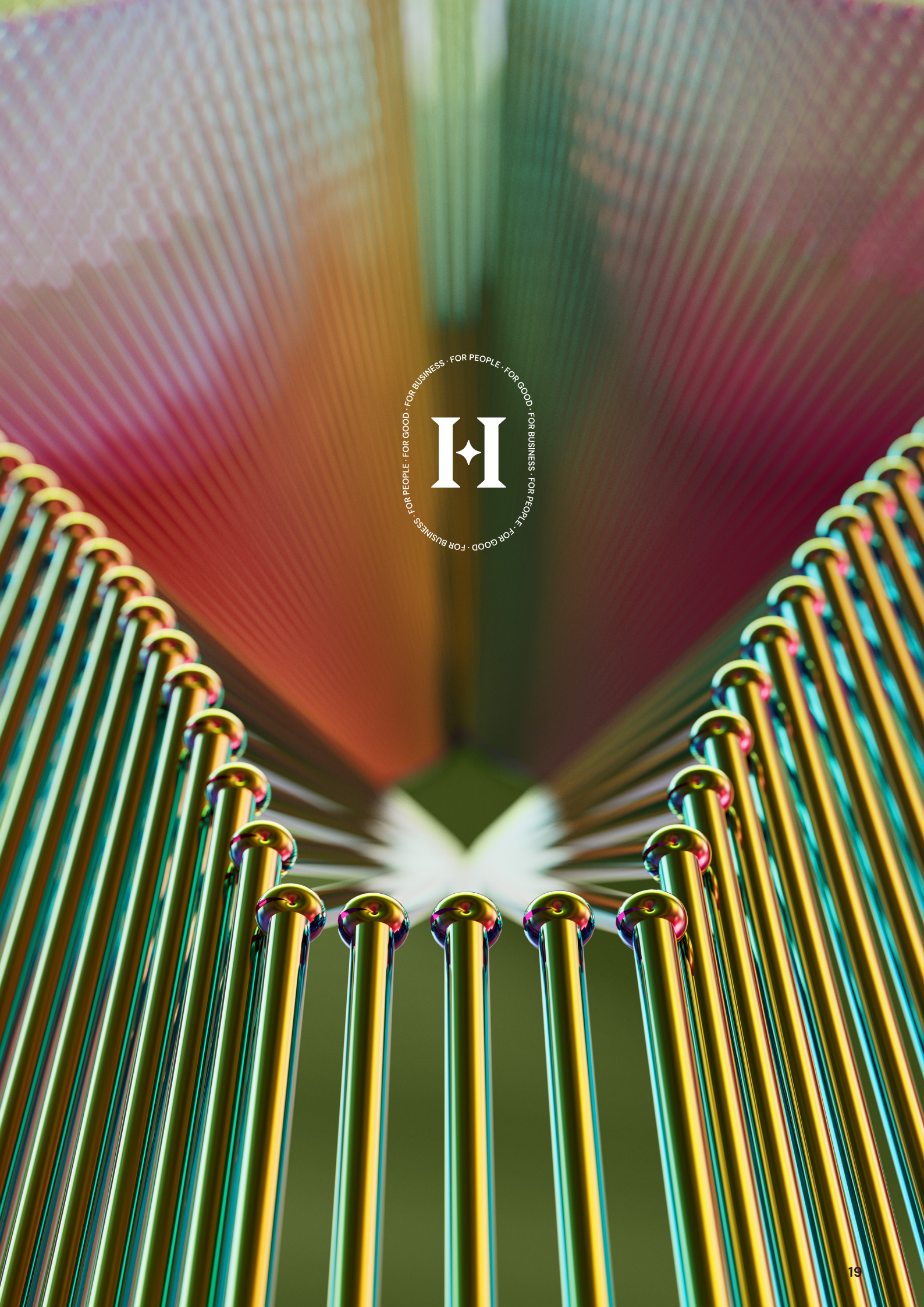
Employers should use the period before April 2027 to review benefit arrangements, strengthen governance processes, engage stakeholders and assess whether voluntary payrolling of additional benefits could provide a smoother route to full compliance.

Schools that start planning now will be better placed to reduce risk, minimise disruption and take advantage of the opportunities presented by the new reporting framework.

Please contact the HaysMac Employment Tax team if you would like to discuss how mandatory payrolling may affect your school and the steps that should be taken before April 2027.



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New company size thresholds: Why they matter for independent schools

For accounting periods beginning on or after 6 April 2025, the UK's company size thresholds will increase in the most significant revision since the current framework was introduced. The changes were implemented through The Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024 and affect the classification of companies as micro, small, medium-sized or large.

Many independent schools are established as charitable companies limited by guarantee. As the revised company size thresholds take effect, some schools may find themselves moving into a lower Companies Act reporting category, potentially affecting filing requirements, available exemptions and audit considerations.

The new thresholds

A company qualifies for a particular size category if it meets any two of the following three criteria.

Category (meet any 2 of 3 criteria)	**Turnover**	**Balance sheet total**	**Employees**
Micro	£1m (from £632k)	£500k (from £316k)	10 (unchanged)
Small	£15m (from £10.2m)	£7.5m (from £5.1m)	50 (unchanged)
Medium	£54m (from £36m)	£27m (from £18m)	250 (unchanged)
Large	Exceeds medium thresholds	Exceeds medium thresholds	Over 250 (unchanged)

Transitional provisions allow organisations to apply the new thresholds immediately, without waiting for the usual two-year qualification period.

Size classification determines the reporting regime that applies and can affect filing requirements, available exemptions and audit obligations. For charitable companies, however, the position is often more complicated than for their commercial counterparts.

Independent schools operate within multiple regulatory frameworks

Like other charitable companies, independent schools must navigate both company law and charity regulation. In practice, governors need to consider not only Companies Act requirements but also Charity Commission expectations, funding arrangements, banking covenants and stakeholder expectations. Moving into a lower Companies Act size category does not necessarily eliminate audit requirements or substantially reduce reporting obligations.

The importance of understanding those regulatory interactions extends beyond financial reporting. As schools respond to increasing financial pressures, many are reviewing their operational structures and use of facilities. For example, some schools are exploring whether charitable business rates relief can continue to apply to nursery provision within their estates. Such arrangements may be achievable in certain circumstances, but typically require careful structuring and consideration of the underlying charitable activities being carried out.

From 30 September 2026, revised charity accounting and scrutiny thresholds became effective.

Requirement	**Current Threshold**	**New Threshold**
Independent examination required	£25,000	£40,000
Qualified independent examiner required	£250k	£500k
Audit required (income test)	£1m	£1.5m
Audit required (asset test)	Assets £3.26m and income £250k	Assets £5m and income £500k
Group accounts threshold	£1m	£1.5m

Where SORP 2026 fits in

The revised Charities SORP introduces a three-tier reporting framework based on income only.

- **Tier 1:** Income up to £500k.
- **Tier 2:** Income between £500k and £15m.
- **Tier 3:** Income over £15m.

A school may qualify as small under company law, fall outside the mandatory charity audit regime and yet still face significant implementation work as it adopts the revised FRS 102 and SORP 2026 requirements. The changes to revenue recognition, lease accounting and narrative reporting are substantial, regardless of whether an audit remains mandatory. While some smaller charitable organisations may reconsider whether a statutory audit remains necessary, this is likely to be less relevant for many independent schools. Schools often maintain audited financial statements because lenders, regulators, governors and other stakeholders regard external assurance as an important part of good governance.

Example:

Consider a school with annual fee income and other incoming resources of £12m, assets of £6m and 140 employees. Under the previous thresholds the school may have fallen outside the small company regime, whereas under the revised thresholds it could potentially qualify as small for Companies Act purposes.

Even where a school benefits from simplified Companies Act reporting requirements, governors are likely to find that implementation of revised FRS 102 and the new Charities SORP demands substantially greater management attention than any administrative savings generated by the revised size thresholds.

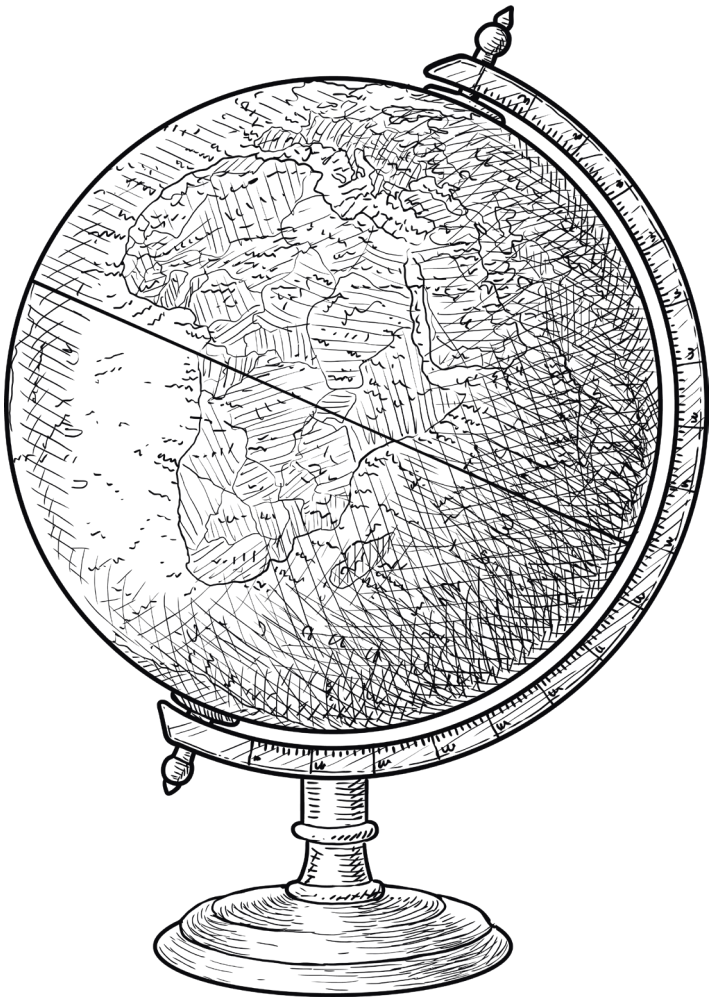
Looking ahead

For many independent schools, the revised size thresholds will not fundamentally change governance, financial reporting or assurance expectations. However, they do offer an opportunity for governors and leadership teams to reassess how their organisation is classified and whether any reporting simplifications are available.

At the same time, schools are preparing for the most significant changes to charity accounting for many years through the revised FRS 102 and forthcoming Charities SORP. Against that backdrop, the increase in company size thresholds is best viewed not as a stand-alone compliance change but as part of a wider evolution in the financial reporting landscape for charities and independent schools.



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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.



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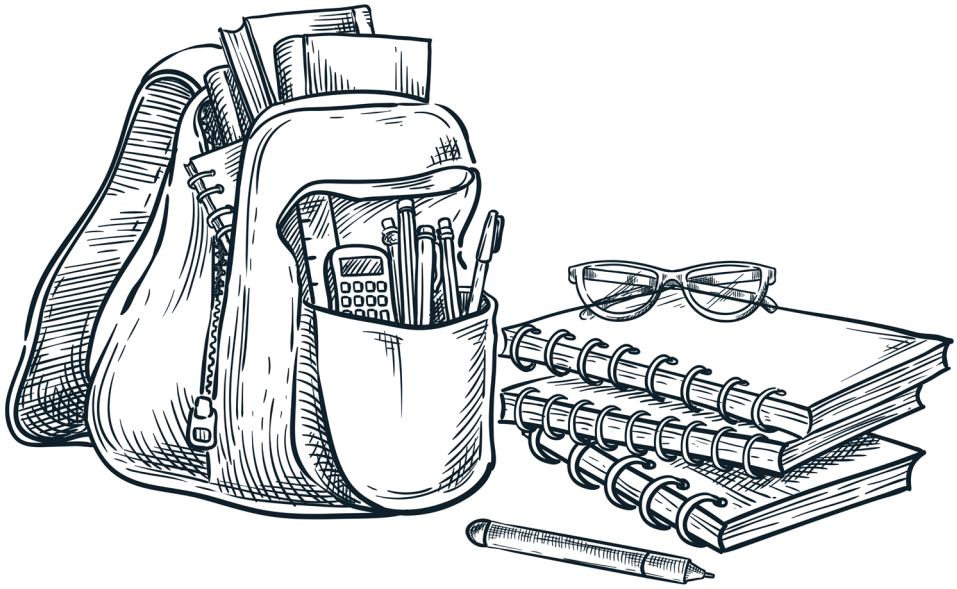
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Upcoming events

Tax Navigator: Autumn Budget 2026
29 October 2026
10:30-11:30
Online

SORP: Charities recap
25 November 2026
10:00-11:30
Online

Quarterly Charities Update
12 December 2026
10:00-11:30
Online

ISBA Finance Conference
4 February 2027
9:00-17:00
BMA House

Trustee Training sessions
March 2027 - TBC
Online

Quarterly Charities Update
March 2027 - TBC
Online

Independent Schools Update
24 March 2027
10:30-12:00
Online

AGBIS Conference
17 March 2027
9:00-17:30
The British Library

ISBA Conference
17-19 May 2027
9:00-17:30
Manchester Convention Centre



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