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Simon Kent, Editor,
The Global Recruiter

"The Global Recruiter will bring a comprehensive guide to compliance for recruiters. We will seek to highlight as many aspects of compliance as we can, bringing both expert views and practical guidance."

COMPLIANCE FIRST

The changes in compliance around recruitment that are currently coming into force are perhaps the most significant the industry has seen. While experts have wrangled in the past over definitions, implications, models and there like, there is no doubt that the forthcoming umbrella regulations bring more risk and responsibility to recruitment companies than ever before.

But while these regulations will naturally form a major focus for our coverage this year, there is more for recruiters to understand. Any international expansion, for example, will require understanding local rules and regulations. Europe may be on the UK's doorstep but it has a whole host of other requirements for recruiters to meet – and these are changing and being added to as well.

Across the next few issues, The Global Recruiter will bring a comprehensive guide to compliance for recruiters. We will seek to highlight as many aspects of compliance as we can, bringing both expert views and practical guidance. Taken as a whole, this coverage should help steer your business successfully into more lucrative waters. ■

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LEAD THE WAY IN COMPLIANCE WITH FCSA

With significant regulatory changes approaching, recruitment agencies operating in the contingent labour market face increasing scrutiny and operational risk. The Freelancer & Contractor Services Association (FCSA) is the UK's leading authority on compliance within the contractor services sector, setting the benchmark for legal, ethical, and operational best practice.

As the proud sponsor of Global Recruiter's Compliance First Series, our mission is to equip recruiters with the confidence, clarity, and tools they need to navigate change and place contractors compliantly and responsibly.

We understand the evolving challenges surrounding IR35, agency legislation, supply-chain due diligence and broader workforce compliance. FCSA provides practical guidance and a trusted framework to help agencies avoid costly errors, protect their reputation, and ensure contractors are always engaged fairly and correctly.

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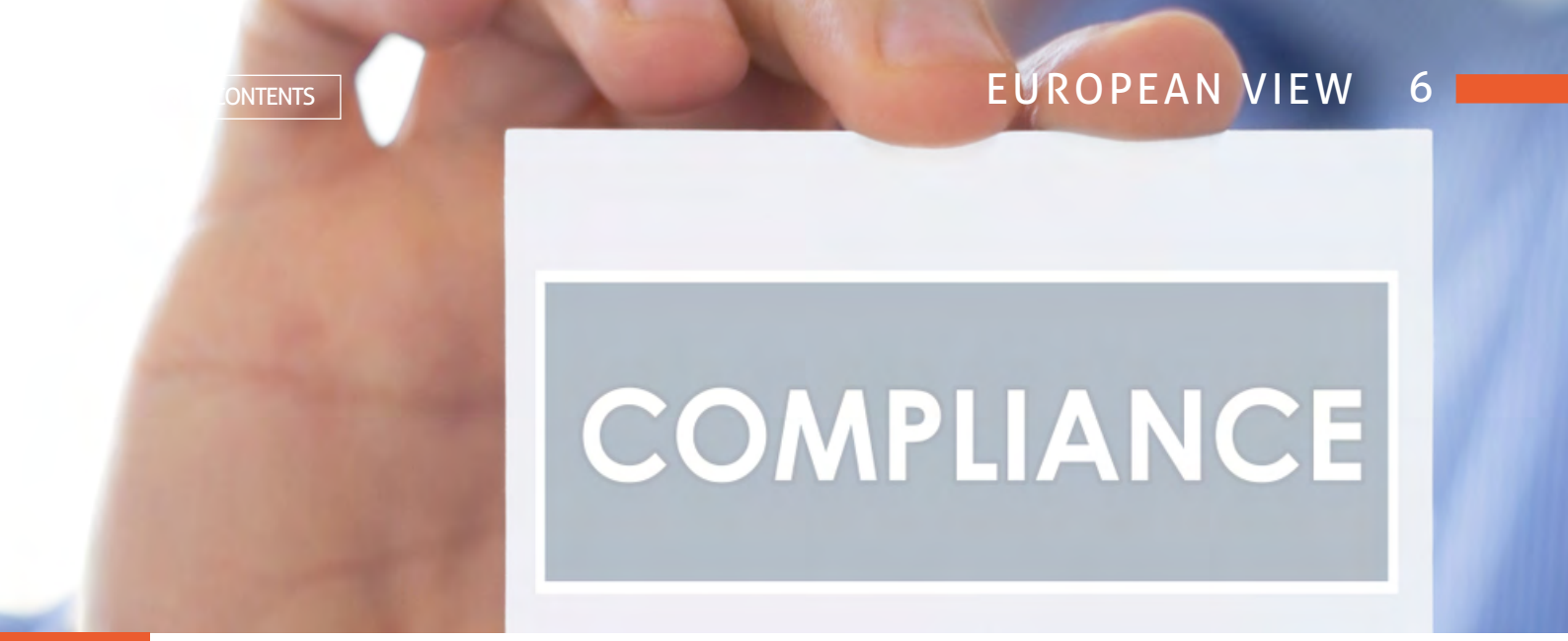
To learn more about FCSA Recruiter Partnership and Diligence Hub, please visit fcsa.org.uk. ■

EUROPE'S EVOLVING COMPLIANCE

Tania Bowers, Global Public Policy Director at APSCo on what European recruiters need to know for 2026 and beyond.

European recruitment compliance is entering one of its most significant periods of change in over a decade. Driven by new workplace technologies, shifting labour regulations, and the EU's ambitious approach to regulating artificial intelligence, recruiters operating across Europe now face a more complex set of responsibilities than ever before. Whether you're placing contractors, managing temporary workforces, running RPO projects, or sourcing talent remotely across borders, the compliance expectations for recruiters in 2026 are higher, stricter and more technical. >



The EU AI Act

The EU Artificial Intelligence Act is, without doubt, one of the most transformative compliance change affecting recruitment. Enforced in phases from 2 February 2025, it introduces the world's first comprehensive AI regulatory framework.

Crucially for recruitment businesses, the EU AI Act classifies all AI systems used in hiring, screening, ranking or evaluating candidates as "high risk". That includes CV-parsing tools, automated screening systems, video interview analytics platforms, skills-assessment algorithms and chatbots that influence hiring decisions.

Key obligations for recruiters operating in Europe under this Act include:

- Human oversight: AI cannot make employment decisions without human involvement.
- Bias prevention and data governance: Recruiters must ensure training data is relevant, accurate and nondiscriminatory.
- Transparency: Candidates must be told when AI tools are being used in their evaluation and can request information about how decisions were made.
- Documentation and auditability: Companies using AI tools must maintain thorough documentation, risk assessments and monitoring records.
- Use of banned AI practices: Recruiters must ensure their tools do not use biometric categorisation, emotion recognition, social scoring or behavioural manipulation, all of which are banned outright under the Act from February 2025.

The Act not only applies to EU companies, but also to non-EU recruiters placing talent into EU roles or using AI tools that affect EU-based candidates. That means UK, US, Middle Eastern or APAC recruiters hiring into Europe are legally in scope. Failing to comply can result in fines of up to 6 - 7 per cent of global annual turnover for high risk breaches.

It's important that recruiters operating across Europe audit every AI-enabled tool in their tech stack, check which are categorised as high risk and request compliance documentation from vendors.

New employment and labour rules across Europe

Beyond AI regulation, several employment law changes across the EU are affecting the compliance responsibilities of recruitment firms, particularly those supplying temporary, contract or cross-border talent.

Platform Worker Directive (pending final implementation)

Set to impact gig economy and flexible-work platforms, the Directive seeks to clarify when a worker should be classed as an employee rather than self-employed. >

Recruitment firms providing flexible staffing, especially in delivery, warehousing, hospitality or logistics, should prepare for increased scrutiny of worker classification and potential obligations for benefits, holiday pay and social protections under this Directive.

Pay transparency rules

EU Pay Transparency Directive provisions began rolling out in 2024, introducing significant new expectations for employers and, by extension, the recruitment businesses representing them. One of the most notable changes is the requirement to include salary ranges in job advertisements. This shift aims to eliminate pay secrecy and ensure candidates enter the hiring process with a clear understanding of compensation. In addition to greater visibility in job postings, candidates now also have the right to request specific pay related information during the recruitment process, giving them more control and transparency over how their potential salary compares to others in similar roles.

Another major component of the Directive is the obligation placed on employers to explain and justify any identified pay gaps. This moves pay transparency beyond simple disclosure and into accountability, requiring organisations to demonstrate that pay differentials are based on objective, nondiscriminatory factors. For recruitment companies, this means working more closely with clients to ensure job descriptions, adverts, and offer materials align with these requirements and do not inadvertently breach the Directive.

Firms placing talent into EU countries must therefore review their processes to ensure that all candidate facing materials meet these new transparency standards. Taking a proactive approach will not only help recruiters remain compliant, but also strengthen trust with candidates and position themselves as partners who support fair and equitable recruitment practices.

Practical tips for recruiters navigating European compliance

Compliance across Europe is becoming more complex each year, and at the same time more commercially significant for recruitment businesses. Clients increasingly expect their recruitment partners to demonstrate a strong understanding of regulatory requirements, data protection standards and responsible technology use. To meet these expectations, companies need to take a proactive and structured approach.

A good starting point is to audit every technology tool used within the recruitment process. This includes systems that rely on artificial intelligence such as CV ranking tools, auto-screening functions or candidate facing chatbots, as well as automated workflow tools and any form of video based assessment or behavioural analytics. Recruiters should request confirmation from their technology providers that their systems comply with the EU AI Act, including details on risk categorisation and transparency requirements. >

It is equally important to ensure recruiters themselves are trained on the regulations shaping the hiring landscape globally. While consultants do not need to become legal specialists, they do need to understand which types of candidate data can lawfully be collected, how and when AI is being used in the hiring process, and how to explain this to candidates. They should also be familiar with the rights candidates have under both GDPR and the EU AI Act, including the right to request human review, and should understand when human oversight is legally required.

Transparency should be embedded into every stage of candidate communication. Recruiters must explain when automation or AI is being used to support hiring decisions, how those decisions are made, and what options candidates have if they want a human to review an automated assessment. This responsibility goes beyond compliance, it helps build trust, improves candidate experience and differentiates recruiters that take a human-centred approach to technology.

Strengthening data protection processes is another essential component of compliance. Firms should ensure that data retention periods are consistently applied, that only the minimum amount of personal information necessary is collected and processed, and that any cross-border transfer of data, especially between the UK and EU, meets the relevant regulatory standards.

Together, these steps will help recruiters operate with confidence in a much more regulated environment, while giving clients and candidates assurance that compliance, fairness and transparency are central to their approach. Clients may also be unaware of their obligations. Recruiters that guide clients through compliance will be more valuable, more trusted and more strategically embedded.

Preparing for expansion in 2026

Recruitment businesses operating in Europe face a regulatory landscape that is evolving faster than ever before. With the EU AI Act introducing unprecedented rules for hiring technology and labour directives reshaping the mechanics of employment, compliance can no longer be treated as a back-office task. It is now a strategic capability and a commercial advantage.

Those who respond early, audit their processes and tools, and build transparent, human-centred workflows will not only stay compliant but also strengthen trust with clients and candidates alike. In a more regulated, more digital and more scrutinised European market, compliance is no longer just about avoiding fines, it's about safeguarding your brand, protecting your talent pipeline, and building the future of ethical, resilient recruitment. ■

Regulatory compliance for recruitment agencies working with contractors across Europe

Emily Ward-Masters
Workwell Global

Whilst all the attention in the UK has been on the off-payroll rules (IR35), the umbrella regulation and the upcoming Employment Rights Bill, the regulatory landscape in Europe when hiring contingent workers has also moved significantly.

Two recurring themes dominate:
1) Worker classification (employee versus self-employed)
2) The regulation of temporary or agency work

Governments and courts across Europe have moved to limit misclassification and tighten rules on temporary contracts and labour leasing, increasing compliance burdens for organisations using contingent labour and agencies placing contractors across Europe.

Worker classification

Misclassifying workers as independent contractors remains a frequent compliance issue. Regulators and courts are increasingly willing to re-characterise supposedly self-employed individuals as employees when control, dependency, economic subordination or integration into the hirer's organisation are present. That shift raises payroll tax, social security and employment-law liabilities (back pay, benefits, notice, collective-bargaining obligations). Organisations relying on contingent labour and the agencies placing the worker should adopt robust, evidence-based classification processes: documented contractual terms, actual working practices audits, regular legal reviews in each jurisdiction, and contract clauses that reflect true commercial arrangements.

Some legislative reform examples and recent court decisions in Europe include:

Spain: A series of court decisions and the 2021 "rider" rules for platform delivery workers have shifted the balance toward employment status for many gig workers. Spanish courts have enforced employee treatment where platform algorithms, control over routes and scheduling, or economic dependence exist.

Italy: Legislative reforms in recent years (including the "Decreto Dignità" and subsequent measures) and court practice have restricted abusive use of open-ended agency formats and precarious contracting, making it harder to rely on short-term or pseudo-self-employed models for ongoing roles.

France and Belgium: Both countries have strengthened protections for temporary and platform workers via legislation and administrative scrutiny, with courts ready to reclassify relationships that disguise employment.

Temporary contracts and labour leasing

Across Europe, many governments have tightened rules on fixed-term contracts and labour leasing to combat precarious work. Reforms frequently cap the total duration or number of renewals for fixed-term agreements, impose stricter justification requirements for temporary hires, and increase penalties for abusive use. Labour leasing (temporary agency work) has been the subject of enhanced transparency and equal-treatment obligations—agencies and end-users are required to ensure parity of pay and conditions in many jurisdictions, and misuses can trigger joint-liability exposure.

EU-level momentum

At the EU level, recent directives and proposals (notably on platform work and transparent and predictable working conditions) signal harmonisation toward stronger employment protections for atypical work. The EU's measures tend to promote presumptions of employment for platform workers and improved information and redress rights for contingent workers, increasing cross-border compliance complexity for multi-jurisdiction employers.

Practical compliance steps

For agencies operating in European countries directly, we recommend the following:

- Adopt a country-by-country compliance matrix covering classification tests, maximum fixed-term durations, agency-work rules, payroll and social contributions.
- Use written, realistic contracts supported by aligned operational controls and documentation of actual practices.
- Perform periodic legal audits and consider insurance or escrow for contingent-payroll liabilities.

At Workwell Global, we specialise in providing compliant contingent workers to our agency customers with the right frameworks, status determination guidance and legal expertise. Our legal and compliance team ensure that we adhere to the latest rules and legislation around status determination, temporary contract rules and labour leasing obligations.

Book a **complimentary consultation** with one of our regional employment experts to discuss your compliance needs in Europe and beyond.

For more information, visit workwell-global.com
or email sales@workwell-global.com.

About the author: Emily Ward-Masters is the Director of Legal and Compliance at Workwell Global. She is a qualified compliance and legal professional in the recruitment and payroll industries, with experience and specialist knowledge on corporate governance, risk management, commercial contracts, data protection, incorporations, and insurance within the UK, EU, North America, and the Middle East.

PRESENT CHALLENGES, CALMER FUTURE

Geraldine King, Employment and Recruitment Federation surveys the compliance demands for recruitment companies in Europe.

European recruiters are living through a contradiction. The EU economy has proven more resilient than many expected, yet the businesses that keep people in work are weighed down by a complex mix of sustainability, data and labour rules. For the small and mid-sized firms that make up most of the industry, that administrative load is now one of the biggest barriers to growth. >

Brussels says it has heard that message and has promised to cut administrative burdens and go further again for SMEs. The intention is to trim overlapping rules and slow the constant expansion of reporting. The question for recruiters is sharper: will any of this make day-to-day compliance easier, or will new obligations simply replace old ones?

At EU level, leaders have backed an 'Omnibus' simplification package aimed at scaling back some of the most demanding sustainability reporting rules. This is in response to Mario Draghi's report on the future of European competitiveness. Anyone dealing with the Taxonomy Regulation, the Corporate Sustainability Reporting Directive or the Corporate Sustainability Due Diligence Directive knows how heavy that load has become. The goal is to reduce the frequency and depth of reporting, soften the trickle-down of obligations to smaller firms and cut some of the bureaucracy around ESG.

Impact on Recruiters

For recruiters, the first impact will be indirect. Agencies will feel the change through large clients that have been wrestling with ESG disclosures. If those employers can meet their obligations with less complexity, they should have more capacity to focus on hiring and workforce planning instead of constant compliance exercises. If procurement and governance expectations become more proportionate, some of that pressure may ease down the supply chain.

All of this plays out against a labour market backdrop that remains tighter than the headline debate sometimes suggests. Euro area unemployment continues to sit around the six per cent mark; Ireland remains close to full employment, with unemployment hovering near five per cent and overall employment at record highs. Yet shortages are now structural and visible in everything from healthcare and construction to tech and life sciences. Employers are under pressure to move faster on digitalisation, AI adoption and the green transition, all of which require skill sets that are in short supply. Recruiters see this in their day-to-day work: more advisory support, more briefs that involve reskilling and job redesign, and more requests to map international talent pools when local supply is too thin.

The Platform Work Directive

Alongside this broader context sit a series of very specific new obligations that will shape recruitment practice directly. The Platform Work Directive is one of the most important. Member States have until the end of 2026 to transpose it into national law. The Directive does not treat platform work as a separate type of work. It focuses instead on how work is organised and who is genuinely in control, introducing a rebuttable presumption of employment where indicators of "direction and control" are present. >

For Ireland, this sits alongside the 2023 landmark Karshan Supreme Court judgment, which sets out a more structured test for employment status. Agencies operating digital platforms for example, shift-allocation tools for hospitality, retail or logistics, will need to assess where they sit. If an agency runs a digital interface that allocates workers to clients while retaining real control over pay and conditions, it may be treated as an employer in a triangular relationship and fall under both the Platform Work Directive and the Temporary Agency Work Directive.

The Platform Work Directive also introduces transparency and algorithmic management obligations. Platforms must explain when automated systems are used to allocate work, rate performance or make decisions that materially affect a worker. Many agencies already use automated matching, scheduling and candidate-screening software. Over the next two years those systems will need to be audited, documented and, in some cases, redesigned to meet the new standards. None of that will feel like less compliance in the short term.

Pay Transparency

The EU Pay Transparency Directive is another major shift. Member States, including Ireland, must transpose it by mid-2026. The most immediate changes will be at the point of recruitment. Employers will have to provide salary ranges in job advertisements or before an interview and will no longer be allowed to ask candidates about their pay history. Agencies will need to work with clients to agree and document those ranges and to retrain consultants who are used to probing on previous pay as part of the qualification process.

Workers will gain stronger rights to information about their own pay and average pay levels broken down by gender. That will feed into more informed candidate expectations and more pointed questions in negotiations. Larger employers will have a heavier reporting regime. Gender pay gap reporting will become mandatory on a phased basis for employers above defined headcount thresholds, with joint pay assessments requiring engagement with worker representatives where unexplained gaps of five per cent or more persist. Ireland has taken an initial step with the General Scheme of the Equality (Miscellaneous Provisions) Bill, 2024 but the substantive Pay Transparency Bill is keenly awaited.

The comparison with the United Kingdom is instructive. UK-based employers with 250 or more employees have already been required to publish annual gender pay gap reports for several years, and expectations around equality action plans are hardening. Post-Brexit data protection reforms are being sold as a simplification but will still need to track EU standards closely in practice if data flows are to continue. For agencies that work across both jurisdictions, the reality is there are two parallel, evolving systems to be navigated that both claim to make compliance easier. >

Signs of Future Reform

So, will compliance challenges for recruitment companies in Europe ease? The honest answer is that they are unlikely to feel lighter in the next few years but there are signs of reform. Policymakers have recognised the weight of the regulatory load, and the Omnibus simplification work is a genuine attempt to trim it. If the EU succeeds in reducing duplication and unnecessary bureaucracy around sustainability and data rules, that will eventually create a more manageable environment. Employment and social policy must also contribute to improving Europe's competitiveness and productivity.

In the near term, however, recruitment firms will be dealing with fresh obligations around platform work and pay transparency, on top of existing national rules. These are not optional and will require investment in policy, technology, training and client education. In the UK, agencies face a different but equally demanding mix of worker-status litigation, evolving gender pay obligations and a new data protection regime.

The opportunity lies in using compliance to deepen relationships with clients rather than simply absorbing it as a cost. Agencies that move early on salary transparency, that audit their use of digital and platform tools and that understand both EU and UK regimes will be better placed to advise employers and candidates. For everyone else, the risk is that the regulatory tide never seems to go out; it only changes direction.

Europe will remain a competitive labour market only if regulation is simplified, compliance becomes proportionate, predictable and easier to operationalise. The recruitment industry, through bodies such as the Employment and Recruitment Federation, believes this can be achieved responsibly ensuring both economic and social progress and has a central role in making that case and in making sure that rules designed for the largest companies do not drown the firms in the middle that are the engines of our labour markets. ■

The Employment & Recruitment Federation is a voluntary organisation set up to establish and maintain standards and codes of practice for the recruitment industry. Representing over 200 member companies throughout Ireland, the ERF develops and promotes education and training, and provides information and advice on the sector, as well as members services such as vetting, and lobbying on policy and industry issues impacting the labour market.

AGENCY COMPLIANCE THE EASY WAY

With significant legislative changes coming in April 2026, compliance and due diligence are becoming ever more vital across the recruitment sector.

At FCSA, the only not-for-profit organisation in the sector and the acknowledged gold-standard for compliance, we have always championed high standards, transparency and trust within the supply chain. Our latest development, Diligence Hub, takes that commitment even further.

Diligence Hub brings together two respected compliance platforms – **veriPAYE** and **Diligence Hub** – to create one seamless, easy-to-use solution. By combining veriPAYE's payroll transparency expertise with Diligence Hub's proven supply chain validation tools, we've created a single platform that gives recruiters a complete, real-time view of their compliance landscape.

From verifying umbrella companies to tracking key documentation and payment processes, Diligence Hub simplifies what has long been a complex and time-consuming task.

Recruiters can manage their entire compliance process in one place, with automated checks, live alerts and clear audit trails: helping protect both their business and their contractors.

The changes arriving in 2026 will bring greater scrutiny and higher expectations for compliance across the sector. Diligence Hub has been developed to help recruiters prepare for these changes with confidence – providing a proactive way to identify risks early, demonstrate good governance and evidence responsible practice.

Importantly, Diligence Hub is completely free for recruiters. As part of our ongoing mission to raise standards and strengthen the industry, FCSA is ensuring that every recruitment business – whatever its size – can access the tools it needs to operate transparently and compliantly.

Diligence Hub is more than just a platform; it's part of our wider effort to build a more robust, accountable and trusted recruitment sector. As the only not-for-profit organisation making compliance simpler and more accessible, we're supporting recruiters to focus on what they do best – connecting people and opportunity.

To learn more or register for access, visit diligencehub.co.uk

JSL: PREVENTION AT THE HEART OF RECRUITMENT COMPLIANCE

Crawford Temple, CEO and founder of Professional Passport, on the impact of Joint and Several Liability.

The clock is ticking. From April, Joint and Several Liability (JSL) will fundamentally alter the compliance landscape for recruitment businesses operating in the UK. While agencies have long worked within complex regulatory frameworks, JSL represents a decisive shift in how risk is allocated and enforced across labour supply chains. It moves compliance away from reassurance and intention, and firmly towards outcome and accountability. >

At its simplest, JSL asks a simple question: has the PAYE liability associated with a worker been paid correctly to HMRC, yes or no? If the answer is no, liability arises. The reason, the route by which the failure occurred, and the efforts made to prevent it become legally irrelevant.

This has profound implications for how recruiters think about compliance, due diligence and risk management, and brings into sharp focus the distinction between detection and prevention.

Understanding the legal reality of JSL

Joint and Several Liability is introduced under Chapter 11 of the Finance Act 2020 and comes into force in April. It gives HMRC the power to recover unpaid PAYE income tax and National Insurance contributions from parties other than the umbrella company that employs the worker.

In a standard agency-umbrella-client supply chain, HMRC has confirmed that it will pursue the recruitment agency where PAYE is not properly remitted. Where no agency exists, liability may fall to the end client. Importantly, HMRC is not required to pursue the umbrella first.

The most significant aspect of JSL is that there is no statutory defence; HMRC has repeatedly stated that there is no form of due diligence, accreditation, payslip audit or RTI verification that removes liability. Even where an umbrella has deliberately misrepresented information or committed fraud, liability still transfers up the chain.

As a result, compliance is no longer judged by effort or process, but by outcome. Either the PAYE has been paid, or it has not.

Due diligence in a JSL world

Government guidance continues to encourage recruitment businesses to carry out due diligence on umbrella companies. Agencies are expected to understand how their suppliers operate, review contractual arrangements and remain alert to signs of non-compliance.

However, HMRC has also been clear that there is no requirement to demonstrate to HMRC that due diligence has been carried out. Due diligence exists to help agencies manage their own commercial risk, not to provide legal protection from JSL.

This distinction is critical. Due diligence remains important, but its purpose has changed. It may reduce the likelihood of non-compliance entering the supply chain, but it does not alter the legal position once a PAYE shortfall exists.

For many recruiters, this challenges a long-held assumption that robust checking equates to protection. Under JSL, it does not.

Detection-based compliance and its limitations

Traditionally, recruitment compliance has relied heavily on detection. Payslip checks, RTI reviews and post-event audits are widely used to identify irregularities and provide reassurance that payroll calculations appear correct. >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Under JSL, these measures still have value, but their limitations are now stark. Detection takes place after payroll has been processed. By the time a payslip is reviewed or an RTI submission checked, the taxable event has already occurred.

If PAYE is subsequently not paid to HMRC – whether due to mismanagement, insolvency or deliberate withholding – liability crystallises regardless of how quickly the issue is identified. HMRC has been explicit that payslip checks and RTI reports do not provide an excuse where a shortfall exists.

Detection can highlight risk, but it cannot reverse it. In a JSL framework, that distinction matters.

Prevention and the neutralisation of liability

Prevention takes a fundamentally different approach. Rather than identifying issues after the event, it focuses on ensuring that the PAYE liability is settled correctly in the first place.

HMRC has confirmed in a series of webinar Q&As that where PAYE and NIC liabilities are paid directly to HMRC, and the full amount relating to the relevant workers has been settled, there is nothing for HMRC to recover under JSL. In legal terms, the liability has been neutralised.

This does not mean that prevention is simple or risk-free, but it does mean that JSL cannot arise where the liability no longer exists. This is a crucial distinction. JSL cannot be mitigated after the event; it can only be prevented.

Additionally, without preventative controls, agencies may still be exposed to other events, such as umbrella insolvency or historic underpayment, that trigger JSL claims.

The importance of aligned audit trails

Central to any preventative approach is the existence of a fully aligned audit trail. HMRC's position makes clear that simply sending money to an umbrella company does not provide protection, even if that umbrella settles PAYE on a weekly basis.

Without an audit trail that links the funds paid, the RTI submission for each worker, and the settlement of the reported PAYE liability to HMRC, recruiters remain exposed. Where money passes to an umbrella without this alignment, there is no certainty that the amounts reported and paid reconcile correctly.

This gap creates risk, particularly where multiple workers, agencies and assignments are involved. It also creates opportunity for manipulation, whether intentional or not.

Disguised remuneration and hidden risk

One of the less visible but increasingly significant risks under JSL is disguised remuneration. Where there is a gap between the amount sent by the agency and the amount reported on a worker's payslip, scope exists for deductions, reclassification or alternative payment mechanisms to be introduced.

HMRC has long taken a strong stance against arrangements that obscure the true nature of pay. Under JSL, the consequences of such arrangements extend beyond the umbrella and directly affect agencies. >

Without confirmation in all instances that the amounts paid to workers by the agency matches what has been reported to HMRC as earnings, the risk of disguised remuneration increases substantially. This risk persists even where umbrellas appear compliant and provide documentation.

Direct payment and exposure

HMRC has acknowledged that agencies can, in principle, pay PAYE liabilities directly to HMRC. Where the full liability relating to their workers has been settled, HMRC has stated it will not pursue further recovery under JSL.

However, this protection only exists where the payment is precise, reconciled and evidenced. If the audit trail does not align perfectly – for example, if RTI submissions, worker assignments and PAYE references do not match – residual exposure may remain.

A clear choice for recruiters

JSL leaves recruitment businesses facing two broad approaches. The first is to continue relying primarily on detection and verification, accepting that these measures improve visibility but do not remove liability. The second is to adopt preventative models designed to neutralise liability at source.

Redefining compliance in recruitment

Joint and Several Liability marks a turning point in recruitment regulation. It replaces comfort with certainty and assumption with evidence.

For recruiters, the challenge is no longer about simply keeping up with legislative change but understanding its practical effect. In a JSL world, compliance is no longer about proving you tried to do the right thing. It is about ensuring the right outcome occurred.

That shift – from detection to prevention – will define the next phase of recruitment compliance and determine which businesses are best equipped to operate in an environment where liability is absolute and the margin for error is minimal. ■

Don't detect JSL, prevent it with Professional Passport Fortis.

January 2026

JSL DOESN'T KNOCK TWICE.

Professional Passport Fortis ensures it never knocks at all.

Joint and Several Liability (JSL) is one of the most misunderstood risks facing contractors and businesses today. Many only become aware of it once an investigation begins – when liability has already been assigned and options are limited. At that

Professional Passport Fortis exists to address this problem at its source. Rather than reacting to enforcement action, Fortis provides independent assessment and verification before engagement takes place. This proactive approach reduces exposure by ensuring that contractual and operational

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NAVIGATING UMBRELLA RISK

Katherine Holmes, Head of Legal and Audit at La Fosse, shares how the compliance changes represent a significant shift for both La Fosse and the wider recruitment industry.

From April this year, new rules will introduce joint and several liability for unpaid PAYE (Pay as you earn) and NICs (National Insurance Contributions) in relation to umbrella companies. For those operating in the contractor market, the upcoming reforms are prompting a significant re-evaluation of risk, responsibility, and supply chain management. >

CASE STUDY 22

COMPLIANCE

Tech talent specialist La Fosse, have always prioritised compliance, and the new umbrella legislation means even more robust measures are required for operating in 2026.

A heavier compliance burden – and no safety net

Government analysis shows that hundreds of thousands of workers were engaged through umbrella companies that did not always meet all their tax obligations in 2022–2023, a staggering statistic that heavily prompted umbrella reform measures being introduced.

In practical terms, the new legislation means recruitment agencies could be held responsible for tax shortfalls caused by third parties – even where appropriate checks and controls are already in place.

“This isn’t a minor regulatory update, aimed at those intentionally cutting corners,” Katherine Holmes says. “It fundamentally changes how responsibility is applied across the supply chain. Recruiters can no longer afford to be passive – umbrella partners are an extension of our business, and we need to ensure they meet the same standards we uphold.

“The most challenging aspect is the absence of a statutory defence,” Katherine explains. “Even where agencies have carried out robust checks, if an umbrella company fails to meet its obligations, the liability can still sit with us.”

That reality has understandably caused concern across the sector. Many agencies rely heavily on umbrella companies to engage contractors, particularly where internal PAYE models are not practical.

“When the proposals first emerged, there was a lot of uncertainty in the market,” Holmes adds. “We at La Fosse, like lots of other recruitment teams, were trying to ascertain the level of exposure to us as a business, as well as make sense of what practical solutions could look like.”

Why internal PAYE isn’t the ultimate safeguard

One response seen across the industry has been the consideration of in-house PAYE models. While this can reduce reliance on third parties, it is not a practical solution for every business.

“Setting up internal PAYE requires time, infrastructure and specialist resource,” Katherine notes. “For many agencies, especially those operating at scale or across multiple markets, it simply isn’t feasible.”

Rather than removing umbrellas from the supply chain altogether, La Fosse has focused on strengthening governance around existing relationships instead.

“The legislation doesn’t prohibit the use of umbrella companies,” Katherine says. “What it demands is much stronger oversight and a clearer view of risk.”

Tightening control through preferred supplier lists

A key part of La Fosse’s response has been the introduction of a tightly controlled preferred supplier list (PSL) for umbrella partners. Historically, recruiters have often allowed contractors a high degree of flexibility in choosing which umbrella company they work with. Under the new regime, that approach carries increased risk. >

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We've taken a clear position," Katherine explains. "We're moving into January with a small PSL, working alongside only a handful of umbrella partners who meet our standards across compliance, service, and contractor experience."

Umbrella partners on the PSL will undergo thorough audits, continuous monitoring, and evaluation against clear standards, with any issues addressed promptly by the La Fosse compliance team.

"We can't afford to take any risks," Katherine says. "If something doesn't stack up, we need to be able to act fast."

The new PSL will be fully in place well ahead of the legislation coming into force, allowing time for contractors to transition smoothly and for non-approved arrangements to be phased out responsibly.

For Katherine, this isn't the first major compliance shift the recruitment sector has faced. The off-payroll working changes under IR35 (Inland Revenue 35) offered a clear lesson in the importance of early preparation.

"When IR35 responsibility moved to the fee-payer, we saw very different responses across the market," Katherine reflects. "Some organisations invested early in process and education. Others underestimated the impact and were forced into rushed decisions.

"But planning proved to be essential. We built structured processes and prepared teams well in advance," Katherine says. "That experience has absolutely shaped how we're approaching umbrella reform."

The concern now, is that the industry may again be underestimating the scale of change.

"There's a perception in parts of the market that April is a long way off," Katherine says. "But meaningful compliance work takes time. Leaving it too late limits your options."

Treating umbrella partners as an extension of La Fosse

One of the most important mindset shifts, Katherine believes, is how recruitment agencies view umbrella companies within their operating model.

"Umbrella partners represent us to contractors," Katherine says. "Their practices reflect directly on us, so they can't be treated as arm's-length suppliers."

That principle underpins La Fosse's compliance strategy. Rather than viewing umbrellas as interchangeable, the agency focuses on long-term partnerships – but only where standards align.

"We're committed to working with the best of the best," Katherine explains. "If we want to stand behind our reputation, we need confidence in every link of the chain."

This approach also supports contractor protection, which Katherine sees as an essential part of compliance.

"Raising standards benefits everyone - agencies, clients, and contractors," she adds.

A welcome crackdown - despite the increased risk

While the reforms introduce greater liability, La Fosse supports the overall direction of increased regulation. >

"We welcome any legislation that raises standards and tackles non-compliance," Katherine says. "Responsible behaviour is central to how we operate, and organisations that invest in strong compliance shouldn't be undercut by those who apply less controls or cut corners."

However, the scale of the statutory risk is not insignificant, and even teams that value compliance will feel the pressure.

"It does feel heavier than expected," Katherine acknowledges. "Joint and several liability raises the stakes considerably. But compliance isn't optional, it's something we have to adapt to."

Agility, Katherine argues, is now a critical capability for recruitment businesses.

"This industry evolves quickly. Whether it's IR35, umbrella reform, or future regulation, the agencies that succeed are those that can respond quickly without compromising on standards."

What this means for the recruitment sector

As the legislation approaches, Katherine expects a clear divide to emerge between recruitment teams that have invested in compliance infrastructure, and those that have not.

"We may see some last-minute reactions, just as we did with IR35," she predicts. "But businesses that prepare early will be far better positioned – both operationally and reputationally."

For La Fosse, the focus remains on readiness, transparency, and building long-term resilience.

"This isn't about meeting a deadline," Katherine concludes. "It's about building a compliance framework that stands up as regulation continues to evolve."

As scrutiny across labour supply chains increases, compliance is no longer just about managing risk, it's about setting the standard for how recruitment should operate in a changing market.

For more information about La Fosse, visit www.lafosse.com ■

Sources:

https://www.gov.uk/government/publications/tackling-tax-non-compliance-umbrella-company-market/tackling-non-compliance-in-the-umbrella-company-market--3

TAKING THE INITIATIVE

Deb Murphy, Head of Operations at the FCSA give her insight into what recruiter need to do for the Umbrella Regulations 2026.

It's fair to say that April 2026 is looming large for anyone in recruitment who works with umbrella companies. The Finance Bill 2025-26 introduces Joint and Several Liability (JSL) for PAYE and National Insurance, and if that sounds like technical jargon, here's what it means in practice. >

If an umbrella company in your supply chain fails to pay what it owes HMRC, and you have the contract with the end-client, you can be pursued for the debt.

Why is this happening?

HMRC estimates that £500M was lost to disguised remuneration schemes in 2022-23, with over 275,000 workers engaged through non-compliant umbrellas in the same period [1].

The government's solution to this problem…

Agencies control who they work with, so, this gatekeeping role now comes with financial accountability.

At an HMRC webinar on 17 November 2025, agencies asked whether robust due diligence would protect them from liability. The response was unambiguous: joint and several liability applies "in all cases" of umbrella non-compliance [2].

However, whilst due diligence doesn't give you a legal defence, it should, when conducted properly, dramatically reduce the risk of ever needing one.

Understand Your Risk

Firstly, map your risk. Understand who you work with, and any risks that may carry.

Which umbrella companies are your contractors currently using? How were they selected? Who approved them, and based on what criteria? What evidence of compliance have they sent you? What accreditations do they hold?

Many agencies discover surprises when they properly audit their umbrella relationships. Historic arrangements that were never formally reviewed. Undocumented 'verbal' agreements. Multiple umbrellas with unclear approval status. Gaps in documentation that seemed fine at the time but look rather different under the new rules.

If some of these answers are unknown, that should be your first priority. You need to know every company you work with, and most importantly, you need to be able to trust them. Under the new regime, 'not knowing' becomes an expensive position to occupy.

Build a PSL that actually means something

A Preferred Supplier List (PSL) should signal independently verified compliance, not just familiarity. The industry benchmark for umbrella compliance is FCSA accreditation. Our accredited members undergo rigorous annual assessments against comprehensive Codes of Compliance, conducted by independent employment law and tax specialists. It is not self-certification; it is third-party verification of financial stability, operational compliance, and director integrity.

Working exclusively with FCSA-accredited umbrellas doesn't eliminate JSL, nothing does, but it materially reduces the probability of non-compliance occurring in the first place. >

Adding extra checks to your toolkit, such as payslip validation (veriPAYE) can provide an extra layer of transparency as it checks PAYE accuracy, employer deductions, RTI alignment, and pension contributions against live payroll data. When something doesn't reconcile, you know about it before it becomes your liability.

Centralised due diligence platforms (Diligence Hub) can also help streamline compliance, by maintaining audit trails, flagging when accreditations expire, and standardising due diligence checks across your umbrella portfolio.

Think of it as layered protection. Accreditation sets the standard; ongoing monitoring maintains it.

Document everything

When HMRC asks questions, and under the new regime they will, you need to show your working. Contracts, payment records, accreditation certificates, sample payslips, evidence of ongoing monitoring. All accessible, all organised.

That means moving away from email chains and spreadsheets on individual desktops. Your due diligence process needs to be systematic and recoverable.

Review your contracts

Your agreements with umbrella companies should reflect the new risk landscape. Do your existing contracts include appropriate warranties around PAYE compliance? Indemnification provisions? Audit rights?

The specifics depend on your business model, but the principle is sound: more visibility and control means lower exposure.

Engage your legal team now. Contract changes take time to implement, and you want new terms in place before April 2026.

Educate Your Team

Compliance isn't solely a back-office function. Your consultants, account managers, in fact anyone who recommends umbrella providers needs to understand what's changing and why your PSL policies exist.

The temptation to cut corners becomes genuinely dangerous under JSL. Recommending an off-list umbrella because a contractor prefers it, or accepting a supplier without proper vetting because they offer better margins, are shortcuts which may carry real financial consequences.

The Opportunity in All This

Whilst it is easy to focus on the negative, it is worth stepping back to recognise what this legislation was designed to do.

It will create competitive advantage for agencies that take supply chain integrity seriously. >

Compliant umbrellas are the solution, not the problem. They ensure workers are paid correctly, employment rights are protected, and tax is properly remitted. Agencies that can demonstrate robust due diligence will increasingly be preferred by risk-conscious end-clients.

The operators this legislation targets, the non-compliant providers who undercut legitimate businesses while exposing workers to unexpected tax bills, will find it harder to access the market. And that is good for compliant umbrellas, good for agencies with proper governance, and good for the contractors caught in the middle.

Final Thought

April 2026 is only two months away, and proper preparation takes time. Mapping your supply chain, reviewing contracts, implementing monitoring systems, and training staff are all tasks that compound in difficulty if left to the last minute.

The question isn't whether to prepare. It's whether you will do it on your timeline, or HMRC's. ■

[1] HMRC statistics on umbrella company non-compliance GOV.UK, "Umbrella company market — changes to Income Tax rules to tackle non-compliance", Policy Paper, 26 November 2025.

[2] HMRC webinar on Joint and Several Liability HMRC stakeholder webinar, 17 November 2025. Reported in: Contractor Calculator, "Umbrella Tax Avoidance Legislation included in Finance Bill 2026", 2 December 2025.

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PREPARING FOR FRED

Miriam Hanley, Audit Director, Menzies LLP describes how FRED 82 is transforming Revenue Recognition for recruitment firms.

The UK's proposed amendments to revenue recognition rules, set out in the Financial Reporting Exposure Draft 82 (FRED 82), represent an important development for recruitment businesses. FRED 82 will influence the timing of when recruitment firms recognise income, how much revenue can be reported upfront, and how profits are presented in financial statements. >

For an industry built on a mix of permanent placements, temporary workers, retained search and clawback clauses, understanding these changes early is essential. Firms that engage with FRED 82 now will be better prepared for discussions with auditors, investors and lenders, and can avoid unexpected outcomes when reporting results.

Understanding FRED 82

FRED 82 proposes amendments to the revenue recognition requirements within FRS 102, the main accounting standard used by most UK recruitment firms, bringing them more closely in line with International Financial Reporting Standards. Rather than focusing on billing points, invoice dates or fixed milestones, new proposals instead look at when the client receives its service.

For recruitment firms, this means stepping back and analysing what services are being provided to the client, whether these services are distinct, and when these services are delivered. In some cases, control transfers at a single point in time, and as such revenue is recognised. In others, particularly where services are delivered in stages, control transfers progressively as work is performed, and as such revenue at these stages too.

Why recruitment firms face greater complexity

Recruitment contracts often include features that complicate revenue recognition, such as contingent fees, clawback clauses, staged retainers and bundled service offerings. FRED 82 requires firms to apply greater judgement when assessing these arrangements and to support their conclusion with sufficient evidence.

The impact of the proposals varies depending on the recruitment model in question. Temporary recruitment is largely unaffected, while permanent placements and retained search arrangements require closer consideration.

Temporary recruitment: little change in practice

For temporary recruitment, FRED 82 largely confirms existing practice. Revenue arises from providing temporary workers to clients and is typically invoiced based on hours or days worked. The fee often includes the temporary worker's pay plus the agency's margin.

Under both current FRS 102 and the proposed changes through FRED 82, the service being provided is the supply of temporary labour. Revenue should therefore be recognised as service is performed - that is, as the worker completes hours or days worked on the client's site.

The timing of invoicing does not change this in principle, whether raised in arrears or in advance. If an invoice is raised after the work has been completed, revenue already belongs in that accounting period. If an invoice is raised in advance, revenue should still be deferred and recognised as the service is delivered. As a result, most temporary recruitment businesses will see no material change in the timing of revenue recognition under FRED 82. >

Permanent placements timings remain, but amounts may change

Permanent placement fees are one-off fees earned when a candidate is successfully placed into a permanent or fixed-term role. Under current FRS 102, revenue is generally recognised either when the candidate starts work or on acceptance. This approach broadly remains the same under FRED 82.

To identify the correct revenue recognition point it is important to review the contract to understand at which point the company is entitled to invoice the client and therefore has a present right to payment. This indicates the point at which control passes over to the client.

Complications arise where contracts include clawback clauses if the candidate leaves within a set period, such as during a probationary period. These clauses mean that the final amount of revenue is uncertain at the starting date.

Clawback clauses and variable consideration

Under FRED 82, revenue that may later be refunded can only be recognised if it is unlikely that a significant reversal will be required. In practice, this means agencies may not always be able to recognise the full placement fee upfront at a candidate's start date where there is a meaningful risk of a refund.

Instead, agencies must estimate the expected refund using either the expected value method (a probability-weighted average of outcomes) or the most likely amount method (where there is a single likely outcome).

Example: permanent placement with a clawback clause

A recruitment agency places a Software Engineer for a fee of £12,000. The contract includes a 100 per cent refund if the candidate leaves within eight weeks and a 50 per cent refund if they leave in weeks nine to twelve.

Based on past experience and historical data, the agency estimates a 15 per cent chance the candidate leaves in the first eight weeks and a further 10 per cent chance that they leave in weeks nine to twelve. The expected refund is therefore £2,400, resulting in an expected revenue of £9,600.

Under FRED 82, £9,600 is recognised as revenue when the candidate starts work, with a refund provision of £2,400 recorded as a liability. If the candidate remains beyond twelve weeks, the provision is released as revenue. If the candidate leaves earlier, revenue is adjusted to reflect the refund issued. This approach ensures that revenue is not overstated where refund risk exists.

Retainers and retained search: linking revenue to work done

Retainers are common in executive search and retained recruitment models. Clients often pay an upfront, non-refundable or partially refundable fee to secure recruitment services, with the total fee split across stages such as engagement, shortlist and placement.

Under FRED 82, cash received is not automatically revenue. The key consideration is whether the agreed work, or performance obligation has been satisfied. >

The first step is identifying the services included within the contract. In many retained search engagements, each stage may represent a distinct or separate service, depending on how the contract is structured and whether the client receives value from each stage independently. Where services are distinct, revenue must be allocated to each stage and recognised as each stage is completed.

Example: staged executive search

A CFO search is agreed for a total fee of £30,000, payable in three equal stages: a retainer on signing, on shortlist delivery, and on successful placement. Assuming each stage is treated as a separate service, revenue is recognised as follows:

- Stage 1: revenue recognised when initial scoping and market mapping work is completed.
- Stage 2: revenue recognised when the shortlist is delivered.
- Stage 3: revenue recognised when the candidate accepts and starts the role.

Any amounts received in advance for later stages are treated as contract liabilities until related work is performed. This reinforces the principle that revenue recognition is driven by delivery of services, not by payment dates.

Practical steps for recruitment firms

To prepare for FRED 82, recruitment firms should consider:

1. Reviewing standard contract terms to understand when services are delivered, and where a clawback clause may apply.
2. Assessing historical data to support estimates of refunds.
3. Ensuring that accounting systems can deal with deferred revenue and refund provisions.
4. Training finance teams on new FRED 82 principles and enhanced disclosure requirements.
5. Engaging with auditors early to align interpretations and reduce implementation risk to avoid issues later.

Putting FRED 82 into practice

FRED 82 represents a change in focus rather than a complete overhaul, but it is one that recruitment firms cannot afford to ignore. While temporary recruitment remains largely unaffected, permanent placements and retained search engagements require more careful judgement, particularly where fees depend on outcomes, or are paid in stages.

By understanding changes early and applying them consistently, recruitment business owners can avoid surprises, protect reported profits, and approach discussions with auditors, investors and lenders with greater confidence. Taking a proactive and practical approach to FRED 82 will help ensure a smooth transition and more robust, reliable financial reporting going forward. ■

When Due Diligence Isn't Enough:

THE NEW COMPLIANCE CHALLENGE FOR RECRUITMENT AGENCIES

Only Diligence Hub helps you track a worker's entire engagement

Imagine the scenario.

Your agency has done everything it was supposed to. You carried out due diligence on an umbrella company, checked its accreditation, reviewed documentation and confirmed processes looked compliant.

Months later, an issue emerges in the supply chain. PAYE hasn't been paid correctly somewhere along the line.

Under today's rules, the liability would usually sit with the employer responsible for operating payroll. But as of April 2026, the situation looks very different.

With the introduction of joint and several liability, **recruitment agencies may find themselves exposed if tax obligations within their labour supply chains are not met**. Even where an agency has carried out due diligence, the key question may no longer be whether checks were performed, but whether the correct tax was actually paid.

That shift matters because traditional due diligence was never designed to answer that question.

Most compliance processes rely on documentation reviews, supplier assurances and periodic checks. These methods are valuable and remain an important part of risk management. However, **they tend to provide a snapshot at a single moment in time rather than continuous oversight of payroll activity**.

In a regulatory environment that increasingly focuses on outcomes rather than process, this can leave agencies with limited visibility once contractors are actually being paid.

Agencies are looking for ways to strengthen oversight of their umbrella supply chains by introducing more transparency and ongoing verification.

Recognising this challenge, the **FCSA** has developed **Diligence Hub**, a platform designed to help recruitment agencies manage compliance risk more effectively.

Diligence Hub allows agencies to review umbrella company accreditations and carry out deeper due diligence checks in one central place. More importantly, **it provides recruiters with access to veriPAYE**, a system that independently verifies payroll activity to confirm whether PAYE payments and deductions match the payroll data being reported.

By analysing payroll information and producing audit reports, veriPAYE helps agencies gain greater visibility into whether tax obligations are being met - not just when contracts are signed, but as payroll is processed.

For agencies preparing for the introduction of joint liability, this kind of verification can provide an important additional layer of assurance.

The aim is not to replace existing due diligence processes but to strengthen them. Accreditation checks, questionnaires and supplier assessments still play a valuable role. However, combining those checks with independent verification of payroll activity can significantly reduce blind spots in the supply chain.

The recruitment industry has always adapted quickly to regulatory change. As expectations evolve again, the agencies that will be best positioned are those that combine robust processes with greater visibility into real-world outcomes.

Increasingly, agencies will need confidence that the right things are happening every time payroll runs.

Using Diligence Hub allows you to **build a 360° circle of trust**, where everyone connected to the platform has access to detailed compliance and up-to-date company information, reducing risk and enabling genuine confidence across the supply chain.

Diligence Hub

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COMPLIANCE AS A CULTURE

Phil Beardwood, Compliance and Assurance Director at Morson Group, discusses the company's compliance challenges and the opportunity to add value with a robust approach.

As an international business that supplies both people and services around the world, compliance is not just critical to our own governance and reputation at Morson Group, but also to our clients. The compliance landscape is constantly evolving, and so are we, recently rebranding and structuring our business into four strategic business units – Morson Edge (recruitment), Morson Praxis (engineering consultancy), Morson Vital (deployment), Morson Nexus (training) – each with distinct compliance landscapes and challenges. >

It means we have a huge compliance remit, spanning data, health & safety, finance, tax and legal, both in the UK and across our international markets in Europe, Australia and North America. But we also have the advantage of being a long-established and multi-faceted business that has added expertise as we've scaled. Morson is joined-up across systems and business functions, and we have processes in place to track, monitor, update our practices, and to anticipate regulatory change and compliance requirements in order to keep implementing best practice.

For Morson Group, compliance goes beyond box ticking: it is fundamental to our commitment to adding value for clients, candidates and employees, and realising our ambition as a best-in-class partner.

Layers of oversight

Each area of compliance is managed by a specific team and departmental lead at Morson, with each of those teams responsible for due diligence, monitoring and reporting. This is aligned with our ISO standards, and we have automated systems in place to ensure any anomalies are flagged and that reporting is accurate and up to date. As our ISO certifications are regularly audited, these standards provide an additional layer of oversight to ensure that we are consistently achieving best practice compliance standards.

Compliance is a main board agenda item, ensuring oversight and strategic scrutiny at the highest level. In addition, a monthly internal legal forum brings together leaders from within the business across our finance, tax, legal, GDPR, and health and safety teams to discuss current activities and influences across markets, providing an opportunity to consider any new developments, how they affect our business, any changes to our compliance obligations or processes required, and what any implementation requirements and timelines might be. These meetings are minuted and actions are logged, ensuring that individuals have ownership of any issues that need to be addressed, and a mandate to develop any new processes or reporting requirements. They provide a clear record of compliance due diligence and create an opportunity to nurture a joined-up approach across business units, departments and disciplines.

We also recognise the importance of communicating any changes to our compliance obligations, processes or reporting across the business at all levels. Monthly operational boards attended by all managing directors provide a forum for information sharing in this regard. Our managing directors are then responsible for cascading information to their teams, using whatever combination of verbal, printed, and digital channels is necessary. Where there is a significant change, this will be supported by the development of a training module to support affected teams to comply with any new obligations. >

Removing margin for error

As a business that holds more than 1.9 million candidate records and works in sectors that are highly secure, GDPR and data protection are issues that we have to take very seriously indeed. Our approach is to deliver the standards we would want others to apply to our own personal data, and this is a whole team responsibility. All client and candidate records are managed within our databases which can only be accessed by authorised personnel with multi-factor log-ins and security protocols. Our systems have been developed aligned to ISO standards and data protection compliance is embedded in everything we do, with automation to provide prompts and prevent any non-compliant activity. Nothing at all can be viewed, updated or processed outside of the system and it is not possible to override the system.

All our teams undergo mandatory GDPR training on an annual basis and this is tracked and monitored by HR to ensure that training is fully completed and repeated within the required window. We also have online training tools and courses to ensure existing teams and new employees understand the importance of compliance and their role in delivering our obligations. All these resources are regularly reviewed and updated as required.

We have robust security in place to protect data from external threats, and also have strict rules regarding laptop, mobile phone and paperwork security, with protocols in place to mandate that no paperwork or screens are left unattended, either in the office or in transit. A number of apps, including social media platforms, are disabled on all company devices, and a strict social media policy is in place.

In-office audits are also carried out routinely, including simple walk-throughs to check desks at random, which helps to reinforce digital and paperwork security practices and keeps security and compliance front of mind across the team.

Adding value

We know that compliance carries a high weighting for bids that we submit, and the same is true for our clients. By providing robust compliance for our clients, therefore, we not only add value in terms of the standards they can expect; we also provide them with confidence that their supply chain will withstand scrutiny.

We vet all new employees that join any part of the Morson Group business, and carry out both vetting and international sanction checks on every worker we place. Our online onboarding system ensures that all compliance, ID, and bank account verification checks are completed before onboarding can continue and creates a verifiable record that those checks have been completed.

Vetting checks, along with data sharing and data impact agreements are tailored for each client, aligned to their specific needs, and compliance is embedded in service level agreements as a measurable commitment. >

Our clients trust us to maintain high compliance standards, but compliance is also an area where we can add value beyond mandatory obligations. Thanks to the compliance requirements we work to and the resources within our business, we can offer clients guidance across a number of aspects of compliance, providing them with information on upcoming legislation, for example, and what they can do to mitigate risk. We do this both proactively and reactively. Compliance is always included on the agenda at quarterly review meetings, and where there is significant change, we can also support both clients and candidates with a more detailed approach. For example, our IR35 roadshow campaign was instrumental in helping both candidates and clients understand the legislation in more detail and mitigate risk within the supply chain.

Acting locally with global thinking

As an international business, we have put compliance systems and checks and balances in place that can be applied, adapted and scaled internationally. Some of the businesses within the Morson Group are located outside of GDPR compliance, but the level of data protection we adhere to for compliance in the UK sets the standard for best practice elsewhere in the world.

In each overseas location where we have a legal entity – Australia, USA, Italy, Canada – we have teams in place to manage compliance locally, leveraging their location-specific training, legislative knowledge and experience. The need for oversight at a leadership level remains, but our approach is to manage the risk, not micro-manage the detail.

Beyond obligations

Compliance is challenging and wide-ranging, but it should not sit alongside commercial functions – it should be integral to every aspect of how a business operates. When it is viewed in this way, it becomes a culture rather than simply an obligation, providing opportunities to add value and differentiate. ■

Your Candidates Are Asking About Umbrella Compliance. Here's What to Tell Them.

If you work with contractors, you'll have noticed a shift.

Candidates are asking more questions – and they're better informed than they used to be. Many now research umbrella companies before accepting a role, often prompted by cautionary stories online: holiday pay that didn't add up, deductions they didn't understand, or umbrellas that failed to deliver what was promised. These conversations are happening on forums, WhatsApp groups and LinkedIn, and they're shaping expectations long before an offer is accepted.

That puts agencies in a slightly different position.

When you suggest an umbrella company, candidates don't see it as a neutral administrative choice. They see it as a recommendation. And if the experience isn't a good one, they don't just blame the umbrella – they remember where the recommendation came from.

As a result, umbrella compliance is no longer just a back-office concern. It's increasingly part of the candidate experience, and a genuine differentiator for agencies that take it seriously.

Transparency plays a big role here. When workers understand how they're being paid – and why – trust improves. Clear Key Information Documents, which show anticipated take-home pay before an assignment is accepted, help set expectations upfront rather than leaving candidates to decipher their first payslip after the fact.

This isn't just about meeting regulatory requirements. It's about worker protection and confidence. Candidates who feel informed and treated fairly are more likely to accept assignments, stay engaged, and work with your agency again.

For agencies, that starts with working only with **FCSA-certificated umbrella companies**. FCSA umbrellas have already passed some of the toughest compliance checks in the industry and are committed to operating transparently and compliantly on behalf of the workers they support.

Beyond accreditation, FCSA's **veriPAYE tool** strengthens the conversations agencies can have with both candidates and clients. veriPAYE provides a free, centralised view of payments made to contractors and workers via umbrella companies, independently verifying that PAYE & National Insurance calculations and their reporting to HMRC are all correct and, crucially, informs you that the tax has been paid.

Rather than relying solely on assurances or paperwork, agencies gain visibility into what is actually happening on payroll. Every payment is checked using forensic validation, and agencies receive regular audit reports that can be reviewed at any time.

The result is a simple, credible answer when a contractor asks, "How do I know this umbrella is legitimate?"

With FCSA-certificated umbrellas and veriPAYE verification in place, agencies can support candidates with confidence, protect their reputation, and stand out for the right reasons.

Find out more about FCSA

WORK RIGHT

Parvez Khan, Senior Immigration Associate at A Y & J Solicitors, on the five compliance gaps recruiters see before anyone else.

As of January 2026, the Home Office has fully transitioned to an 'intelligence-led' enforcement model, marking a significant shift from the previous reliance on physical inspections. By integrating automated data-sharing with HMRC, the Home Office can now cross-reference PAYE records with Sponsor Management System (SMS) data in real time. This makes small operational gaps, often first spotted by recruiters on the front line, more dangerous than ever before. >

The client needs five hires by Friday

A recruitment director receives the brief on Monday morning. The client holds a sponsor licence. The roles are Skilled Worker eligible. Everything looks fine until Thursday afternoon, when payroll queries the location code. The sponsored worker's Certificate of Sponsorship states office-based. The actual arrangement is hybrid with client site visits. Nobody reported the change.

The hire stalls. The client asks why. The recruiter realises the gap existed long before this vacancy opened. This plays out across agencies every week. The licence holder thinks compliance is handled. Recruiters discover otherwise when they're trying to move quickly.

Why recruiters spot these problems first

Recruitment agencies sit between delivery pressure and regulatory reality. They often see issues internal teams miss because they're asking compliance-led questions at earlier stages of the hiring process:

- They review job specs against actual duties before placements are confirmed
- They ask where people will work before contracts are signed
- They notice when absence tracking stops because they're placing the next wave of hires
- They spot approval chains creating informal workarounds under time pressure

High-volume, fast-paced hiring exposes weaknesses that stay hidden in stable conditions. Processes that appear solid can quickly fail when hiring accelerates. Recruiters are often the first to spot when Sponsor Licence compliance is not embedded in day-to-day operations.

Between July 2024 and June 2025, authorities revoked nearly 2,000 sponsor licences nationwide. Better data sharing and targeted enforcement in sectors like adult social care, hospitality, retail and construction drove the increase. Small inconsistencies compound fast. A job title mismatch becomes a compliance query. A location reporting gap triggers an audit. Poor absence tracking leads to missed notifications. The business impact hits immediately:

- Delayed hires mean lost revenue
- Client trust erodes when placements stall for preventable reasons
- Operations teams scramble to fix gaps while new vacancies pile up
- The sponsor licence itself becomes vulnerable when isolated issues reveal systemic weaknesse >

Gap one: Role and duties mismatch

Recruiters see this first because job descriptions drift during the hiring process. A hiring manager requests a ‘senior consultant’ but the day-to-day duties look more like account management. The CV reflects sales experience. The approved role requires analytical responsibilities. Everyone thinks they’re being flexible. Nobody realises the documentation no longer matches what the person will actually do.

This happens under delivery pressure when speed matters more than precision. Roles get reshaped during interviews. Job titles become aspirational rather than accurate. The Certificate of Sponsorship reflects the original spec. The actual work differs.

Scrutiny typically follows when salary doesn’t match duties, when workers are moved between roles informally, or when job titles suggest seniority that tasks don’t support. Good alignment means the job description, the Certificate of Sponsorship, and the employee’s actual duties match from day one.

Gap two: Location confusion

Hybrid working has created widespread reporting gaps. The approved location states the head office. The worker splits time between home, client sites, and regional hubs. Nobody updates the Sponsorship Management System because the arrangement feels temporary.

Recruiters spot this when onboarding reveals working patterns that differ from documentation. The employee assumes flexibility is standard. The hiring manager confirms it informally. The sponsor licence holder’s records show something else. Responsibility for location updates often falls between HR, operations, and compliance teams. Each assumes the other will report changes.

Gap three: Weak Right-to-Work processes

High-volume hiring exposes procedural weaknesses faster than anything else. Under pressure, right-to-work checks become box-ticking exercises. Documents get copied without verification. Handovers between recruitment and HR miss critical steps. Agency-led onboarding relies on email confirmations rather than systematic record-keeping.

Recruiters see where processes break because they’re accountable when placements fail. When a hire can’t start because documentation is incomplete, they trace the failure back. Often, the check was processed but not recorded properly. Or it was recorded but not in the format required. The principle is straightforward: every check must be completed, documented, and retained before employment begins. No exceptions under time pressure.

Gap four: Poor absence and activity tracking

Absence tracking feels administrative until it becomes a compliance breach that stops new hires. Busy teams treat it as a low priority. Managers assume HR tracks attendance. HR assumes line managers monitor daily activity. Nobody maintains the ten-day consecutive absence threshold systematically. >

Recruiters notice this when placing additional hires. They ask about team capacity and discover sponsored workers have been absent without reporting. The absence wasn't deliberate non-compliance. It wasn't tracked robustly enough to trigger a notification before the threshold passed. This is a systems issue. Absence tracking requires clear ownership, simple tools, and routine reviews. When those elements are missing, gaps emerge silently.

Gap five: Slow or unclear internal approvals

Delays create workarounds that increase risk. A vacancy needs urgent approval, but the Authorising Officer is unavailable. Someone makes an informal decision to proceed because the client is waiting. The Certificate of Sponsorship gets assigned. The formal approval follows days later, or doesn't follow at all.

Recruiters see this when they're ready to onboard, but paperwork stalls. Approval chains that work under normal conditions fail under pressure. Informal decision-making increases risk because it bypasses the controls that maintain compliance.

Stalls typically happen at the director level when multiple approvals are required, during restructures when ownership is unclear, or in matrix organisations where accountability is diffused.

What recruiters who stay ahead do differently

Effective recruiters act as early warning systems by asking questions that surface gaps before hiring decisions are made.

- They verify that job specs match actual duties before placements are confirmed.
- They confirm working locations upfront and flag when arrangements differ from documentation.
- They don't manage compliance themselves, but they recognise when processes aren't working.
- They flag issues to the licence holder early enough to fix them without derailing placements.

This approach requires discipline and awareness rather than deep knowledge of immigration.

How the Home Office is raising the stakes

While the UK continues to rely on compliance visits and audits, recent years have seen a clear shift in how breaches are detected and prioritised. Even small breaches in documentation or reporting can have major consequences for licence holders.

Several factors explain this heightened enforcement activity:

- Targeted data-driven monitoring and cross-government checks
- The Home Office now routinely compares employer-reported information, such as tax, PAYE and worker location data, with sponsor records to identify inconsistencies early. This increases the likelihood that gaps in reporting duties, such as unreported hybrid working arrangements or incorrect job details, will trigger compliance enquiries long before a formal audit visit.
- Lower tolerance for seemingly technical breaches
- Home Office publications and legal updates emphasise that licence obligations continue throughout the entire sponsorship period, not just at renewal. And that failures in monitoring, record-keeping or timely reporting can lead to suspension or revocation. >

- Practical risks beyond basic record-keeping
- Beyond procedural lapses, sponsors are now also warned about risks such as cybersecurity threats targeting Sponsor Management System accounts, including phishing scams designed to hijack licence access or assign Certificates of Sponsorship fraudulently.

What good Compliance looks like in Practice

Strong Sponsor Licence Compliance in recruitment-led environments is calm and predictable.

- Recruiters know which details matter and when to flag concerns.
- Compliance leads respond quickly.
- Reporting happens on schedule without crisis management.
- Job specs align with actual duties from the outset.
- Location arrangements are documented before assignments begin.
- Absence tracking runs routinely with clear escalation thresholds. Internal approvals move at a pace that matches commercial reality without bypassing controls.

When compliance becomes routine rather than reactive, recruiters focus on delivery. Clients trust the process. The sponsor licence stays secure.

Recruitment teams see compliance gaps first because they sit at the intersection of speed and scrutiny. That position carries risk when processes fail, but it also creates opportunity when recruiters use their visibility to identify problems early.

Recruiters who recognise compliance as an operational advantage build stronger client relationships and deliver more reliably. They don't need to become immigration experts. They need to maintain discipline around visibility, ask the right questions at the right moments, and escalate when reality drifts from documentation.

The licence holder ultimately owns compliance but recruiters control what gets seen and when problems surface. When they maintain that visibility, they protect both the client's licence and their own ability to deliver without disruption. ■

THREE THINGS

Compliance is entering a period of major change. In this article, ManpowerGroup's UK Compliance team highlight three areas that will matter in 2026 and beyond.

1. Enforcement: The Fair Work Agency in 2026 and Beyond

Nick Wright, Commercial Manager

From 7 April 2026 the UK begins a staged transition to a new enforcement landscape with the establishment of the Fair Work Agency, a single body designed to bring coherence, visibility and greater impact to the enforcement of employment rights. This phased implementation means employers will see enforcement responsibilities consolidated gradually rather than in one sweep with further powers and rights rolling in over time. >

Initially the Agency will absorb the functions of existing bodies including the Gangmasters and Labour Abuse Authority, the Employment Agency Standards Inspectorate, the Director of Labour Market Enforcement and HMRC's National Minimum Wage Unit. This replaces today's fragmented model with a unified system of leadership, investigation and oversight. Over time its remit will expand to include enforcement of additional rights such as holiday pay and later statutory sick pay reflecting the Government's long-term strategy for a single joined up enforcement body.

As the remit expands through each phase, businesses should expect progressively stronger and more coordinated compliance oversight supported by:

- Inspection and information gathering powers that enable officers to visit workplaces and require documents across a broader range of employment rights
- A strengthened civil penalty system modelled on the minimum wage regime allowing the Agency to issue Notices of Underpayment requiring repayment to workers and penalties to the Government
- Civil proceedings powers allowing the Agency to bring tribunal claims on a worker's behalf and provide legal advice or assistance
- A robust criminal enforcement toolkit including Labour Market Enforcement Orders and Undertakings with penalties such as fines or imprisonment
- Cost recovery mechanisms allowing the Agency to charge employers for enforcement activity where non-compliance is found

Employers would be well placed to review their compliance in core risk areas as the UK moves from a reactive complaint led model to a proactive centralised and highly visible enforcement regime.

2. Pressures Facing the Social Care Industry

Louise Shriane, Audit and Compliance Team Manager

The social care sector is facing significant workforce pressures with over 150,000 vacancies and an annual turnover rate of 30 per cent. Chronic underfunding has contributed to long standing challenges with successive governments failing to implement sustainable strategies. The Build Back Better plan of 2021 pledged £5.4 billion over three years but much of this funding was allocated to integrating social care with the NHS rather than addressing core workforce shortages. >

High turnover remains one of the most urgent and persistent issues with some providers struggling to maintain basic levels of service. Restrictive immigration policies have added further strain. The introduction of the Health and Care Worker visa in 2022 was welcomed, but by July 2024 visa applications from overseas care workers had dropped by 82 per cent compared to the previous year. At the same time reliance on social care services is rising due to an ageing population and the continued drive to move service users out of acute hospital settings and into community care to support rehabilitation and reduce bed blocking.

Recruitment agencies provide social care providers with essential resource to boost staff numbers and reduce the risk of safeguarding concerns. However, agencies must be able to offer a comprehensive service to win in today's market. This includes:

- Robust vetting and recruitment
- Bespoke staff training to meet the individual needs of providers
- Comprehensive induction programmes
- A 24 hour on call service
- Designated safeguarding leads

These criteria require long term financial input and careful conversations with potential clients to ensure the added value is recognised within an already stretched industry.

3. The Increasing Importance of Compliance

Sian Murray, Head of Compliance
This year employers face a progressively complex regulatory landscape with evolving compliance obligations. With the ever-changing landscape, we are seeing an increased importance in contractual assurances from employers not only to maintain productivity and workforce stability through the use of labour providers such as us but also to ensure they retain robust compliance as key legal changes take effect.

The compliance landscape is undergoing its biggest change. From regulatory uncertainty to technological advancements employers face new challenges and opportunities in maintaining robust legal integrity and operational efficiency. Compliance is no longer just a legal requirement. It is a strategic business imperative. As regulations become more stringent in 2026 employers and labour providers must adopt a proactive approach by leveraging technology, updating policies and fostering a compliance driven culture.

Navigating the compliance landscape means as an employer and labour provider we have to understand more. Not only is it essential that we deliver clear, fair and robust recruitment processes, we must stay abreast of regulatory requirements. By understanding our client base and their compliance needs including adopting new processes and technology, we need to ensure we do this at pace while ensuring we do not miss any gaps. >

We ensure adherence to regulatory requirements through:

- Our Expertise: Understanding the intricacies of legislation and regulations and how they need to be applied
- Our Best Practice: Delivering proven strategies for maintaining compliance and avoiding non conformance
- Our Partnerships: By adding value to our clients' business and working collaboratively with the right tools we make compliance simpler

By working this way we mitigate risk, maintain regulatory integrity and build long term partnerships in an increasingly complex and ever-changing landscape. Looking to the future the evolution of compliance will be driven by the increasing use of technology and a focus on ethical conduct and corporate social responsibility. We must adapt to these changes by embedding intelligence and automation at scale and pace to ensure we are prepared for the compliance environment of the future.

Compliance will continue to shape how organisations operate, protect workers and safeguard quality. With stronger enforcement, rising expectations and sharper pressures in key sectors employers and labour providers will need to stay close to regulatory change and maintain strong compliance practices. Those who invest early, understand their obligations and build trust through consistent standards will be well placed for 2026 and beyond. ■

CIS Compliance: What Construction Recruiters Need To Know

As specialists in payroll for the construction sector, we've seen first-hand how complex compliance becomes when workers want to be paid under the Construction Industry Scheme (CIS). On paper, CIS looks simple: subcontractors are paid, tax is deducted at source, and HMRC receives its share. But for recruitment agencies, the reality is far more complicated.

CIS carries compliance risks that can expose agencies to financial penalties, HMRC investigations, and reputational damage if not managed properly. Whilst working with an FCSA and Safe-Rec-accredited payroll partner such as ourselves negates the risks, it's still important for you to be aware of what they are so you can see how we operate to keep you and your clients safe.

In this article, we'll unpack the compliance challenges agencies face with CIS, why these risks are increasing, and how a partnership with Workwell transforms a potential headache into a competitive advantage.

The Compliance Challenge

The main challenge in CIS compliance lies in employment status determination. Is that worker genuinely self-employed, or should they be paid via Umbrella? Get it wrong, and HMRC won't hesitate to pursue your agency or clients for unpaid tax and National Insurance, plus interest and penalties.

In recent years, we've seen HMRC tighten its scrutiny on labour supply chains, particularly in construction. For agencies, this means the margin for error is shrinking fast.

Risks Agencies Cannot Afford to Ignore

1. Financial Exposure
If HMRC rules that a CIS subcontractor was in fact an employee, the agency can become liable for arrears in tax and National Insurance. These sums can quickly run into tens of thousands of pounds.

2. Legal and Employment Rights Claims
Misclassified workers may seek employment rights, including holiday pay and pension contributions. These claims can be costly and damage relationships with clients.

3. Administrative Burden
Managing payroll is complex, particularly for agencies with workers moving between different roles or contracts. Mistakes are easily made, but HMRC penalties will still apply.

4. Reputational Damage
In a competitive sector like construction recruitment, reputation is everything. A compliance slip-up can undermine client trust and make it harder to attract skilled workers.

Managing Risk

Our view is clear: agencies should not be carrying these risks alone. We have specialised in the construction industry payroll for over 25 years. Our service means agencies can transfer the compliance burden to specialists who live and breathe this space. We deliver:

1. Employment Status Verification
We carry out robust employment status assessments, ensuring CIS is used only when genuinely appropriate. Where Umbrella is more suitable, we provide the correct payroll solution. This removes the misclassification risk from your agency.

2. HMRC Verification & Reporting
We manage the full CIS process: verifying subcontractors, applying the correct rates, submitting returns, and issuing deduction statements. That means no more late submissions or costly reporting errors.

3. Integrated Payroll Solutions
We are adept at running both CIS and PAYE side by side, making payroll seamless for agencies with a mixed workforce. This reduces admin and ensures workers are always paid accurately and on time.

4. Enhanced Reputation
As one of the longest-established construction payroll companies, a partnership with Workwell demonstrates to clients and workers that they take compliance seriously. In a market where trust is currency, this can be a powerful differentiator.

The Strategic Advantage

Too often, compliance is treated as a back-office issue. We see it differently. By addressing CIS compliance head-on, agencies can position themselves as trusted, risk-aware partners to their clients.

Clients want assurance that their supply chains are watertight. Workers want to know they'll be paid correctly and on time. When an agency can demonstrate that both are being managed professionally – through a partnership with Workwell – it builds confidence across the board.

Choosing the Right Partner

Of course, not all payroll companies are created equal. Agencies must look beyond headline promises and scrutinise:

- Compliance credentials and HMRC alignment.
- Transparency in deductions and fees.
- Experience in both PAYE and CIS models.
- Worker support and communication standards.

The smartest agencies don't see a partnership with us as an optional extra – they see us as an essential compliance partner. By working with us, agencies protect themselves, reassure clients, and give workers a smoother, more reliable experience.

In a sector where margins are tight and reputational risks are high, that peace of mind is invaluable. Compliance isn't just a box to tick – it's a real chance to create a competitive edge. To find out how we can help, please get in touch below.

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COMPLIANCE IS NOT A COST

Nick Bradley, owner and director at Adepto Technical Recruitment explains that compliance doesn't cost anything because it's part of the product.

At Adepto, we have always been clear about what we provide to clients. It is not simply search and selection – it is confidence in how capability is delivered.

In specialist markets, skills move quickly between programmes. Organisations rely on contractors and interim experts to maintain delivery schedules and that flexibility supports productivity and allows knowledge to move where needed. However, it also increases complexity, with more contractual layers, more parties involved, and greater scrutiny around how individuals are engaged and paid. >

Most recruitment leaders recognise these pressures. The difference is how compliance is positioned within the business. In many firms, it is treated as a necessary cost of operating which is important, but largely defensive.

We have always taken a broader view in that clients are not only buying access to talent. They are placing responsibility in our hands to manage supply-chain risk, protect their reputation, and ensure engagement models are sound. For that reason, compliance forms part of the service itself.

Compliance as a commercial advantage

That perspective has influenced how we have structured the business, from contractual frameworks to operational controls and partner selection. Over time, it has become a commercial advantage. As scrutiny has increased, compliance has shifted from a back-office consideration to a board-level concern. Clients want to know not only that you can deliver capability, but that you can manage the associated risk.

Placing strong candidates remains essential but what increasingly differentiates agencies and MSPs is the ability to provide assurance across engagement types, across suppliers and often across jurisdictions.

Clients expect clarity over responsibilities within the supply chain – they expect evidence that appropriate checks are completed. They want to see contractual arrangements that have been properly designed and, when issues arise – particularly when pay is impacted – they expect their recruitment partner to take ownership rather than deflect responsibility.

We embedded this approach before major regulatory changes such as changes to IR35 rules. The aim was not to anticipate specific legislation, but to operate in a way that remains sustainable as expectations evolve. When a supply chain fails, the consequences rarely sit neatly with one party. Contractors, clients and recruiters are all affected.

Compliance is not treated as an annual audit exercise, but as a routine operational discipline, with early investment in stronger contracts, defined operational processes and consistent record-keeping. That discipline has supported our commercial growth, including securing an EMEA wide MSP with a multinational manufacturer. At that level, clients assess governance and control alongside delivery capability. Compliance alone does not win complex programmes, but it plays a significant role in the overall decision.

International growth and structural responsibility

International expansion adds another layer of complexity.

A compliance model that works in the UK does not automatically translate overseas. Regulatory requirements, employment frameworks and tax obligations vary considerably by country. Replicating UK documentation and processes without adaptation can introduce risk rather than reduce it.

International growth requires clarity in three areas:

1. The legal employer position in each jurisdiction and the associated obligations
2. Consistent local execution supported by appropriate documentation
3. The ability to demonstrate compliance quickly and clearly when required. >

COMPLIANCE

To manage those challenges, we partnered with a select list of vetted Employer of Record (EoR) and Agent of Record (AoR) suppliers – a great example of which being Sapphire, based in Cheshire, England. Through these suppliers, we've been able to enter 23 territories across Europe with a compliant in-country employer structure, without building fragmented local processes market by market. That has allowed us to scale internationally while maintaining the governance, pace and visibility our clients expect.

In several European jurisdictions, identity verification requirements sit explicitly with the legal employer. Sapphire carries out identification validation processes as part of its employer responsibilities. This reduces operational burden on the agency while supporting a structured and auditable framework.

We retain oversight and maintain appropriate documentation, but we do not attempt to replicate local employer expertise in each territory. Instead, we focus on governance, client management and commercial delivery, supported by a partner with in-country capability.

This structure has enabled international growth without creating disproportionate internal complexity.

Looking beyond procedural compliance

Within the UK, the compliance discussion is evolving again. Most activity focuses on process, including aligned contracts, documented onboarding, accurate deductions and appropriate record keeping. While these elements remain essential, supplier failure is a category of risk that is not always visible in a standard audit.

In umbrella supply chains, exposure is not limited to procedural error. Financial instability within a provider can create immediate operational and reputational challenges. Contractor payment disruption, client escalation and uncertainty around liability can follow quickly if a provider collapses.

In those circumstances, governance standards and financial resilience become as important as documented process. For that reason, our definition of compliance extends beyond paperwork. It includes partner stability and operational maturity.

Strengthening umbrella due diligence

As expectations tighten, our approach to umbrella partner selection has become more detailed. We assess accreditation and governance standards, ensuring that they are current and actively maintained, and request financial transparency from any umbrella providers on our preferred supplier list.

We also assess operational clarity, including cashflow management and internal controls with an objective not to interfere with a partner's operations, but to understand structural stability. Service standards are equally important and our contractor service can quickly escalate into operational strain for both agency and client. Effective communication, accuracy and responsiveness form part of overall supply-chain control.

Our relationships with Sapphire and our other selected regional EOR and AOR's reflect these criteria. We initially engaged Sapphire to support international expansion, including markets where in-country employer expertise was essential. Over time, we observed a level of governance maturity, financial transparency and operational structure that aligned with our broader compliance philosophy. Extending the partnership further was consistent with our overall risk management approach. >

Working with partners prepared to operate transparently strengthens our ability to evidence due diligence across the supply chain.

Legislative developments and leadership responsibility

Expected umbrella legislation changes from April 2026 reinforce the importance of this approach.

From April 2026, changes to umbrella legislation will affect every recruitment agency and MSP that engages contractors. The company closest to, and holding the contract with the end client can be held jointly and severally liable (JSL) for unpaid PAYE and National Insurance Contributions where an umbrella sits in the supply chain. The JSL rules increase supply-chain risk for agencies and MSPs, making documented due diligence and audit trails important to mitigate potential recovery of tax by HMRC.

This shifts supplier governance firmly into leadership territory. It is no longer sufficient to rely on historic checks or informal assurances – evidence, monitoring and partner selection processes must be demonstrable and repeatable.

Balancing flexibility and governance

Specialist labour markets depend on flexibility, with the movement of expertise between organisations supporting innovation and productivity. Regulation also plays an important role in protecting workers and safeguarding the tax system, but sustainable models must also allow access to skills.

For recruitment businesses, this means building structures that protect contractors, clients and the wider system while maintaining operational agility.

From our experience, the key is to treat compliance as a commercial capability rather than an administrative burden. That requires consistent oversight, informed partner selection and a willingness to engage with governance at leadership level.

In a market where scrutiny continues to increase, control and transparency will remain central to long-term credibility. ■

TAKING CONTROL

Crawford Temple, CEO and founder of Professional Passport, argues recruiters must now take control of their risk.

Joint and Several Liability (JSL) will fundamentally change how risk is allocated across labour supply chains. What was once viewed as a downstream payroll issue is now a very real material exposure for agencies and end clients alike. Under JSL, HMRC is not concerned with intent, assurances, or the perceived quality of a supply chain partner. The test is simple: was the correct tax paid, in full, and on time? If not, HMRC may recover the liability from any party in the chain. >

In this environment, the concept of 'control' becomes key. Those who control payment, control liability. Those who control liability, control risk.

Understanding Joint and Several Liability

JSL gives HMRC broad powers to recover unpaid PAYE and National Insurance Contributions from multiple parties involved in supplying labour. HMRC does not need to prove wrongdoing, negligence, or knowledge. Nor is it required to pursue the party that actually operated payroll before looking elsewhere. Instead, it will seek to recover the PAYE from the agency or end client if no agency is involved.

For agencies and end clients, this means that reliance on third parties such as umbrellas, payroll providers, or intermediaries no longer provides meaningful protection. Even where services have been delivered, invoices paid, and documentation reviewed, liability may still crystallise if the correct tax is not ultimately received by HMRC.

The Limits of Assurance-Based Compliance

Historically, labour supply chain compliance has been built around assurance. Payslip checks, payment verification, audits, accreditations, and professional opinions are widely used to demonstrate governance and oversight. While these measures may indicate intent, they do not control outcomes.

From an HMRC perspective, assurance does not equal payment. A compliant-looking payslip does not prove that PAYE and NICs were remitted. A verification report does not prevent funds from being diverted. An audit conducted months later does not reverse any tax loss that has already occurred.

Crucially, none of these controls transfer liability. When unpaid tax is identified, HMRC does not pursue the auditor, the checker, or the verifier. Liability remains with the party within the scope of JSL, regardless of how extensive the review process may have been. >

Payslip Checks and Payment Verification: Why They Fall Short

Payslip checks focus on presentation, not substance. They assess how pay appears, not whether the underlying calculations are correct or whether the tax has actually been paid. Errors, misclassifications, or aggressive interpretations can be hidden in plain sight, and payslips themselves provide no evidence of remittance to HMRC.

Payment verification is similarly limited. It is retrospective, selective, and dependent on information supplied by the paying party. At best, it may identify issues after the event. At worst, it provides false comfort while exposure continues to accumulate. In either case, the risk under JSL remains unchanged.

HMRC's Direction of Travel: Control Over Review

HMRC's approach to enforcement increasingly prioritises prevention of tax loss over review of process. The focus is shifting away from whether parties looked at the right paperwork and towards who controlled the flow of money.

In practical terms, this means HMRC is more interested in structural controls that ensure tax is paid than in assurances that it should have been. Reasonable steps are no longer judged solely by effort, but by effect.

Controlling the Payment to Control the Liability

If liability arises because tax is unpaid, the most effective way to manage that liability is to control the payment itself. When PAYE and NICs are calculated transparently, segregated clearly, and paid directly to HMRC under controlled conditions, reliance on behaviour by others in the chain is removed.

This approach fundamentally changes the risk profile. Instead of detecting non-compliance after it occurs, control-based models prevent tax loss in the first place. Evidence of payment is created by design, not reconstructed after the fact. >

Commercial Implications of Control

Beyond compliance, controlling payment delivers significant commercial benefits. It reduces balance sheet uncertainty, limits multi-year exposure, and strengthens an organisation's position in HMRC enquiries. It also provides clarity for boards, investors, and clients who increasingly expect demonstrable control over material risks.

Perhaps most importantly, it avoids the false comfort of assurance-led frameworks that appear robust but do not extinguish liability.

Conclusion: Control as the Only Sustainable Response to JSL

Joint and Several Liability is transforming payroll tax from an operational consideration into a strategic risk. In this environment, verification is no longer enough. Review does not prevent enforcement. Assurance does not remove liability.

Only control does.

By controlling the payment of PAYE and NICs, organisations control the liability that arises when tax is unpaid. And by controlling that liability, they control the risk that JSL was designed to expose.

The message is clear: Control the payment. Control the liability. Control the risk. ■

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A RISK TOO FAR?

Dave Chaplin is CEO of IR35 compliance firm IR35 Shield and author of IR35 & Off-Payroll Explained asks if agencies can conduct IR35 compliance for their clients?

Since the off-payroll (IR35) reforms placed responsibility for status determinations within the supply chain, end clients have faced tax risk, and agencies have been drawn into that conversation. >

Many agencies are asked to 'handle IR35' as part of their service. On the surface, this feels like a logical extension of client support. It can strengthen relationships, differentiate your offering and generate additional revenue. However, IR35 is not fundamentally a recruitment issue – it is a complex tax issue. That distinction matters because the moment an agency moves from recruitment into tax advisory, risk changes. What may appear to be added value could introduce financial exposure.

So, can agencies safely conduct status determinations for their clients?

How liability is meant to work

Under the off-payroll rules, the hiring organisation is responsible for determining the IR35 tax status, commonly referred to as 'Inside IR35' for deemed employment, or 'Outside IR35' for self-employed for tax purposes. A client can (optionally) create a Status Determination Statement (SDS) and give it to both the worker and the agency, which then triggers the movement of the tax liability from the client to the agency.

Suppose an engagement is determined to be 'Inside IR35', and the SDS is passed to the worker and the agency. The agency (as the 'fee-payer') becomes responsible for operating PAYE and National Insurance Contributions.

However, if an SDS is not given, the agency does not have authority to deduct tax, nor does it become liable for tax on 'Outside IR35' determinations.

Some clients ask agencies to conduct IR35 status assessments on their behalf. Where an agency manages the assessment process, this can introduce tension if/when HMRC conducts a compliance check. Let's explore what might happen.

The HMRC investigation dynamic

If an agency performs assessments without formally stepping into the client's statutory role, liability does not automatically shift. Should HMRC later challenge an 'Outside IR35' status, HMRC could argue that reasonable care was not taken, which would nullify the SDS, meaning the client remains liable for the tax. That does not mean the agency is insulated. If the agency designed or operated the assessment process, allegations of negligence can arise, and the commercial consequences for the agency could be substantial. >

Conversely, if HMRC challenges an 'Outside IR35' decision and reasonable care was taken, and the SDS was given to both parties, then the liability sits with the agency.

The legislation appears to create a lose-lose situation for the agency. If the client and agency defend the process and reasonable care was taken, the agency is liable. If the process is considered careless (reasonable care not taken), the client is likely to sue the agency.

So, how can an agency assist its client without putting itself into harm's way?

The arm's length approach

The safest route is to maintain a clear arms-length position, with the client performing the IR35 status assessment. But clients are asking agencies for assistance, and offering an assessment service can be commercially attractive, helping differentiate your agency in a crowded market.

Where agencies provide an assessment service to their clients, they should ensure appropriate indemnity provisions are in place, alongside well-documented roles and responsibilities.

A middle ground exists where agencies can provide administrative support, assisting with information gathering and process coordination while ensuring the client checks and approves each IR35 status determination. Alternatively, agencies can refer clients to specialist IR35 advisers.

In both models, the client remains the accountable party, aligning with the legislation's intent, and limits the agency's financial exposure. >

How agencies can provide IR35 compliance

Agencies can adopt the following steps to assist their clients with IR35 compliance:

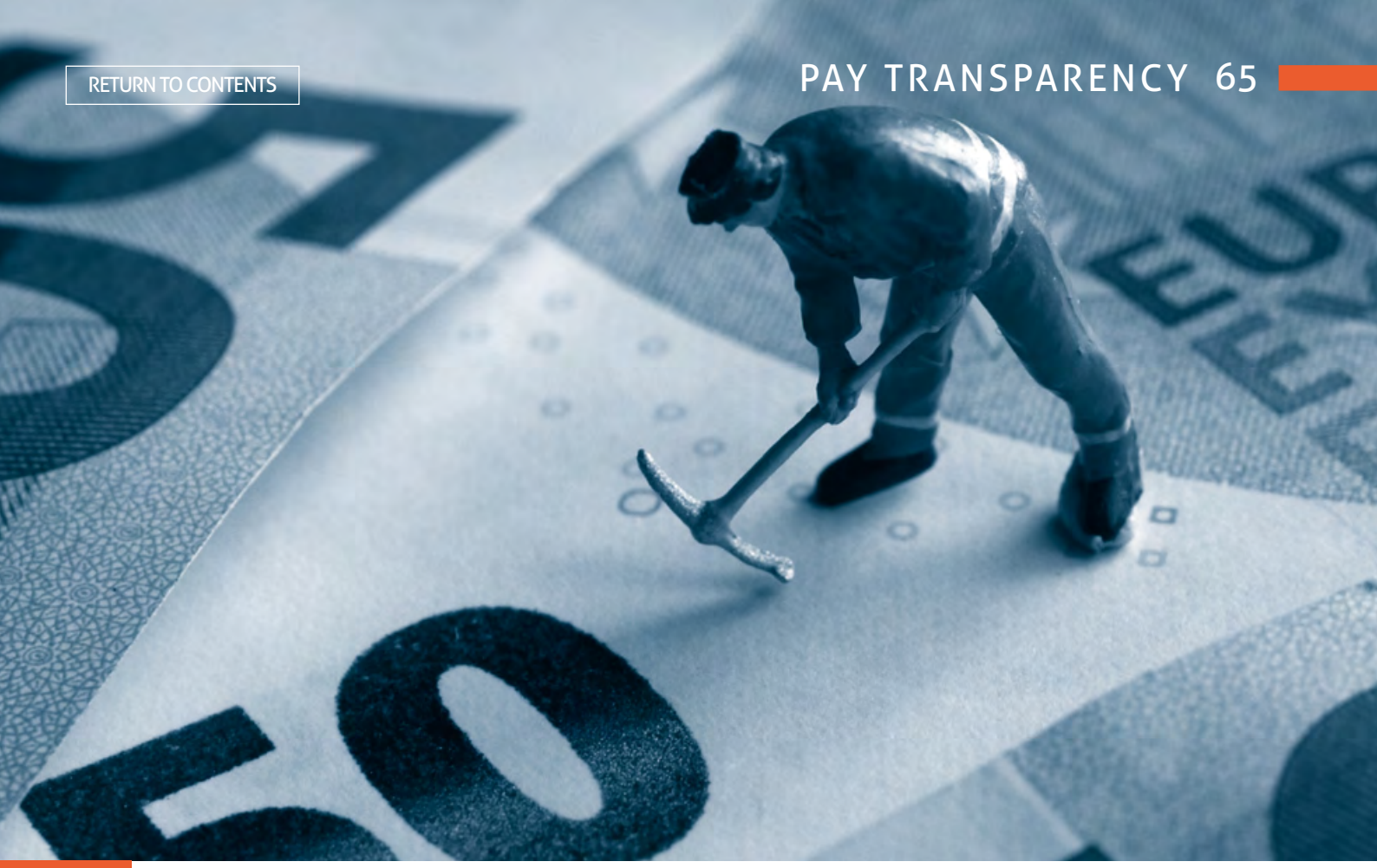
1. Agency designs IR35 compliance process with expertise (in-house or external).
2. Agency/clients agree to a documented process and appropriate contractual indemnities.
3. The agency gathers assessment information (with client help).
4. The agency conducts a determination using a robust assessment tool and creates the Status Determination Statement (SDS).
5. Client checks and approves the determination/SDS.
6. The agency (on behalf of the client) gives SDS to the worker.

With careful planning, clear contractual protections, and genuine coordination with the client as the accountable decision-maker, agencies can conduct IR35 assessments in a way that strengthens their offering without unintentionally absorbing disproportionate tax risk. ■

DON'T WAIT FOR PAY TRANSPARENCY

The EU Pay Transparency Directive comes into effect across the EU on 7th June. Saul Howerton, Vice President and Global Head of People Advisory at Vistra, outlines how multinationals can best prepare.

The EU Pay Transparency Directive is the most significant step towards addressing the gender pay gap yet. While it becomes mandatory across EU member states from 7th June 2026, many employers are still treating it as a future compliance exercise rather than an immediate operational priority. This is a mistake. The Directive fundamentally reshapes how organisations hire, reward and communicate with employees, and the risks of delay extend well beyond regulatory penalties. >



At first glance, the Directive appears straightforward. In practice, it introduces a complex, country-by-country compliance challenge, particularly for multinational organisations. While the European Commission has set the overarching framework, implementation timelines and requirements vary across member states. Employers cannot rely on a single EU-wide approach.

One Directive, many timelines

The requirement for organisations with more than 250 employees to report gender pay gaps will become EU-wide from 7th June. Employers with 150-249 staff must report every three years starting in 2027, and those with 100-149 employees report every three years starting in 2031.

Yet some countries are already well ahead of the curve. Ireland, for example, has required annual gender pay gap reporting for organisations with more than 250 employees since December 2022, a requirement that has since expanded to include all employers with 50 or more employees. Guidance from the Irish government makes clear that expectations around data quality, narrative explanations and remediation plans are increasing, not easing.

This uneven rollout creates real risk for organisations operating across borders, as the Directive allows member states to implement their own rules. Where they do not, the Directive's default provisions will apply. At present, it is unclear which countries will take which route, and for employers, that uncertainty increases the need for proactive preparation rather than justifying delay.

Transparency's impact on recruitment

Beyond reporting, the Directive also introduces material changes to hiring practices. Employers will be required to provide salary information to candidates before interviews take place, and they will no longer be permitted to ask candidates about their salary history. These requirements are designed to reduce historic pay inequality, but they also place new pressure on organisations to ensure salary bands are clearly defined, consistently applied and are defensible. >

This is not simply an HR policy update. It requires close alignment between leadership, hiring managers and compliance teams. Without that alignment, organisations risk inconsistent messaging and internal confusion as well as the danger of HR complaints before a candidate has even joined the business. The European Commission has been clear that pre-hire transparency is a central pillar of the Directive, not an optional extra.

Importantly, the impact doesn't just stop once an employee is hired either. The Directive strengthens employees' rights to request information about pay levels for their role and for comparable roles, as well as the criteria used to determine pay and progression. This level of transparency brings long standing pay decisions into sharper focus.

Employers will need robust documentation and objective frameworks to explain how compensation decisions are made and how career progression is assessed. Without this, organisations will struggle to respond to information requests in a consistent and credible way.

Penalties, publication and reputational exposure

Where organisations fall short, the consequences can be significant. If reporting reveals an unjustified gender pay gap of at least 5 per cent within a specific employee category and the issue is not addressed within six months, a joint pay assessment will be required.

Employees who can demonstrate they were affected may be entitled to uncapped compensation, including full back pay, bonuses, compensation for lost opportunities and interest in arrears. Legal analysis of the Directive suggests this represents a major shift in enforcement power towards employees.

Financial penalties are only part of the picture. Employers may also be required to publish pay disparities alongside a narrative explaining the reasons for the gap and the measures being taken to address it. This level of disclosure increases the risk of reputational damage and employee attrition. In some cases, it may also lead to increased whistleblowing activity as scrutiny extends to other roles or employee categories. >

Why proactive preparation matters now

The message for employers is clear. Waiting for full national clarity before taking action is a high-risk strategy. Organisations should already be reviewing pay data, identifying potential gaps, and preparing for enhanced reporting and disclosure obligations.

Addressing issues early on not only reduces legal exposure, but also helps build trust with employees at a time when transparency expectations are rising. The EU Pay Transparency Directive is a catalyst for cultural change in how organisations think about pay, progression and fairness.

Employers that take a proactive and structured approach will be better placed to manage risk, protect their reputation and strengthen employee confidence. For those that wait – they may find that the cost of inaction far exceeds any time and effort put in to ensuring compliance with the new Directive. ■