

CHARITIES SORP (FRS 102)

Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (Second Edition)

INFORMATION SHEET 5: The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, as applied to Charitable Companies - *Update*

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Secretariat to the joint SORP-making body:



CHARITY COMMISSION
FOR ENGLAND AND WALES



Background

The Charity Commission for England and Wales (CCEW), the Charity Commission for Northern Ireland (CCNI), and the Office of the Scottish Charity Regulator (OSCR) comprise the joint SORP-making body for charities and as such are required by the Financial Reporting Council (FRC), in accordance with its Policy on Developing Statements of Recommended Practice (SORPs), to keep the Statement of Recommended Practice (SORP) under review.

As part of this work, the joint SORP-making body may issue information sheets which seek to clarify the application of the SORP or particular recommendations contained within the SORP. Information sheets may also cover matters not addressed in either FRC standards or the SORP, but which are relevant to charity reporting and on which the joint SORP-making body considers additional guidance to be necessary.

Information sheets do not amend the SORP, are advisory in nature and are released to assist preparers, auditors and examiners of accounts.

It should be noted that information sheets do not form part of the SORP, nor are they reviewed by the FRC and therefore they do not carry the authority of the SORP. They do not introduce new standards for the preparation of financial statements or impose particular interpretations of statutory prescriptions or recommendations of the SORP.

References to reporting standards are correct at the date of publication. Where this information sheet predates changes to accounting standards and a conflict is thereby created, or other developments lead to a conflict, the affected clarifications offered in this information sheet cease to have effect.

Context

The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 Regulations") were issued in November 2018 and came into force on 1 April 2019. They extend the obligation to comply with the reporting requirements of the government's policy on Streamlined Energy and Carbon Reporting (SECR) to large unquoted companies and large limited liability partnerships registered in the UK.

The joint SORP-making body has concluded that the amendments to the 2018 Regulations do not require any changes to the Charities SORP (FRS 102). It is of the view, however, that additional application guidance is likely to be useful for charities that are also large companies which are now required to comply with the 2018 Regulations.

All reasonable care has been exercised in preparing this information sheet. However, it is important for preparers of accounts to make reference both to the relevant SORP modules, relevant legislation and to FRS 102 when preparing accounts, presenting the financial statements and in making the required disclosures.

1. Introduction and background

Purpose of Information Sheet

- 1.1 This information sheet has been prepared to provide additional guidance for charitable companies which fall within the scope of [the Companies \(Directors' Report\) and Limited Liability Partnerships \(Energy and Carbon Report\) 2018 Regulations](#) (the 2018 Regulations). The 2018 Regulations amend the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 2008 Regulations) to bring forward the changes. *Following initial publication on 12 June 2020 this information sheet has been updated with the three amendments shown in italics.*
- 1.2 The 2018 Regulations apply to charitable companies registered in England, Northern Ireland, Scotland and Wales which are required to prepare a director's report under Part 15 of the Companies Act 2006 and which are large companies. The requirements to prepare and file energy and carbon information in their directors' reports apply to both registered and unregistered companies.
- 1.3 The definition of a large company included in the 2018 Regulations is based on the qualifying conditions that apply to the framework of annual reports and accounts under the Companies Act 2006, as amended. A UK charitable company qualifies as large under the 2018 Regulations if two or more of the following qualifying conditions are met and those conditions have existed for two¹ financial years:
- Gross annual income of more than £36 million;
 - Gross (total) assets of more than £18 million;
 - More than 250 employees.

Appendix A provides more information on the timing of the qualifying conditions and whether a charitable company may be exempt from qualifying as a large company.

- 1.4 Charities will need to follow the same method described in the Companies Act 2006, Section 465(6), for determining the average number of employees throughout their financial year.
- 1.5 Group reporting must take into account the energy and carbon consumption of all other group subsidiaries that fall within the scope of the reporting requirements. Group reports have the option of excluding information from any subsidiaries which would not be required to report on its own account.

Interpretation of turnover

- 1.6 The Companies Act 2006² contains the same conditions as those in the 2018

¹ See new paragraphs 20B and 20C inserted into Part 7 as Part 7A of Schedule 7 of the 2008 Regulations as illustrated by Appendix A.

² See Section 465(3) of the Companies Act 2006.
Information Sheet 5: Updated August 2020

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Regulations for companies to qualify as medium sized companies with one of those conditions referring to 'turnover'. [Information Sheet 3](#), *The Companies (Miscellaneous Reporting) Regulations 2018* and *UK Company Charities* interpreted references to 'turnover' to be 'gross income'.

- 1.7 Information Sheet 3 presents comparisons of this term across the three charity law jurisdictions in the UK and how it has been interpreted by the relevant charity regulator. This interpretation of 'gross income' as being considered equivalent to turnover is the interpretation of the SORP-making body, the same interpretation can be applied to the 'turnover' qualifying condition in the 2018 Regulations. Charitable companies should draw their own conclusions regarding the application of the reporting requirements brought forward by the regulations.

Timing

- 1.8 The requirements apply to reporting periods starting on or after 1 April 2019.

2. Index of Topics (Hyperlinked index)

- [Overview of the reporting requirements?](#)
- [Implications for Trustees' Annual Report](#)
- [Further information](#)

3. Overview of the Reporting Requirements

- 3.1 Under changes introduced by the 2018 Regulations, large unquoted companies are required to report their UK energy use and associated greenhouse gas emissions as a minimum relating to gas, electricity and transport fuel, as well as an intensity ratio (see [Section 4](#) for a description of the term 'intensity ratio') and information relating to energy efficiency action, through their annual reports in the directors' report.
- 3.2 [Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance](#), March 2019 (Updated Introduction and Chapters 1 and 2) (SECR Reporting Guidelines) has been issued by government. It includes guidance which helps organisations across the UK in scope of the 2018 Regulations comply with their legal obligations that come into force on 1 April 2019.
- 3.3 *Where charities prepare group accounts the 2018 Regulations (Regulation 20D(5)) permit the exclusion of the reporting of emissions and energy consumption outside of the UK.*
- 3.4 For more information on the application of the reporting requirements to charitable companies see [Section 4](#).
- 3.5 *The background to this Information Sheet confirms it is advisory in nature. It should be considered alongside the 2018 Regulations, all other relevant legislation and the SECR Reporting Guidelines.*

4. Implications for the Trustees' Annual Report

Introduction

- 4.1 Companies are required to include the relevant information on energy and carbon reporting in the director's report. Paragraph 15.6 of the Charities SORP (FRS 102) allows for a combined trustees' and directors' annual report provided it meets all the reporting requirements for the trustees' annual report and applicable charity law. Trustees will need to decide whether to present this information in a separate or combined report.
- 4.2 If the information is contained within a merged report then this should be included in the "Achievements and Performance" section of the trustees' annual report.
- 4.3 Alternatively, Paragraph 1.5 of the Charities SORP (FRS 102) (second edition) allows that a charity may include other relevant material in the report. The information could therefore be reported in a separate environmental report provided it is clearly marked as the relevant part of the charitable companies' director's report.
- 4.4 Charitable companies in the scope of the 2018 Regulations will be required to disclose energy and carbon information in accordance with the [SECR Reporting Guidelines](#) in their trustee reports. Details of what this covers has been inserted by the 2018 Regulations into Part 7 as Part 7A of Schedule 7 of the 2008 Regulations. It includes the following disclosure requirements:

Disclosure Requirement	Commentary
UK energy use	<p>Trustees (Directors) will need to report on energy use for the associated greenhouse gas emissions that relate to:</p> <ul style="list-style-type: none"> • activities for which the charitable companies are responsible for involving the combustion of gas, or consumption of fuel for the purposes of transport; and • the purchase of electricity by the charitable company for its own use, including for the purposes of transport. <p>The report must disclose a figure, in kWh, of the annual quantity of energy. Trustees should consider the charity's activities and supply chains to consider all other relevant energy sources.</p> <p>The 2018 Regulations set out that 'energy' means all forms of energy products where "energy products"</p>

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Disclosure Requirement	Commentary
	means combustible fuels, heat, renewable energy, electricity, or any other form of energy.
Associated greenhouse gas emissions	The relevant report must state the annual quantity of emissions in tonnes of carbon dioxide equivalent (CO ₂ e) resulting from the total UK energy use from electricity, gas and transport from the sources used as above.
At least one intensity ratio	An intensity ratio is a measure of environmental impact, such as greenhouse gasses generated, divided by a relevant commercial metric. Common metrics are turnover or output but others might be sales revenue or square metres of floor space. Annex F to the SECR Reporting Guidelines provides some common intensity ratios.
Previous year's information	Information for energy use and greenhouse gas emissions must be provided for the previous financial year. This is with the exception of the first year of the application of the reporting requirements.
Information about energy efficiency action	If actions have been taken to improve the businesses' energy efficiency during the financial year covered by the relevant report, a description of the principal energy efficiency actions taken should be disclosed in the relevant report.
Methodologies used in calculation of disclosures	There is no methodology prescribed in legislation. However, the one adopted must be one based on robust and sound methodologies. The SECR Reporting Guidelines recommend that methodologies used are widely recognised independent standards.

- 4.5 Offshore undertakings (which undertake wholly or mainly offshore operations as defined by the 2018 Regulations) must disclose emissions and energy use for the UK and offshore areas.
- 4.6 There are no prescribed reporting formats. However, SECR Reporting Guidelines include reporting templates (see pages 54 to 57) which the guidelines 'strongly' encourage organisations to use to promote consistency. More detail, guidance and tools to assist organisations with various elements of the reporting requirements are also found within the Annexes of the Guidelines. Trustees may wish to organise their

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reporting of energy use and greenhouse gases around 'the scopes' which are included in the templates. These scopes are an established means of reporting emissions more guidance on their use is included in Chapter 3 of the [SECR Reporting Guidelines](#).

- 4.7 Trustees may find it useful to consider the complexities involved in establishing the means by which to collect this data. Particular areas of which may need to be considered are:
- determining the operational boundary (see paragraphs 4.13 to 4.17 below)
 - developing processes, information systems and controls for data collection
 - reporting for complex organisations.

Reporting Exemptions

Low Energy Users

- 4.8 Charitable companies which meet the definition of low energy users are not required to make detailed energy and carbon disclosures. Instead they are required to state that its energy and carbon information is not disclosed for that reason. Considering whether this exemption is applicable is therefore an important part of the decision making process.
- 4.9 A low energy organisation is one which has consumed 40MWh or less during the period covered by the report. In assessing whether or not the 40MWh threshold is met, charitable companies must consider all the energy from gas, electricity and transport fuel. It should be noted that where consolidated accounts are prepared for the exemption to apply the group then the consumption of the group as a whole is also less than 40MWh or the subsidiary will have to separately report as required by the Regulations. If the subsidiary reports separately it is recommended that a reference be made to where this information on energy and carbon information can be found in the notes to the consolidated financial statements.

Seriously Prejudicial

- 4.10 The legislation permits trustees not to disclose the relevant energy and carbon information if disclosure would be seriously prejudicial to the interests of the organisation. The relevant report must state that the energy and carbon information is not disclosed for that reason. The SECR Reporting Guidelines comment that organisations are encouraged to rely on this only in exceptional circumstances.

Information Not Being Practical to Obtain

- 4.11 The 2018 Regulations also permit charitable companies not to report where it is not practical to obtain the energy and carbon information. In such cases the relevant report is

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required to state what energy and carbon information is not included in the report and why it is not practical to obtain.

Subsidiaries

- 4.12 Subsidiaries may not be required to report their own energy and carbon information providing;
- the company is a “subsidiary undertaking” at the end of the relevant financial year;
 - the company is included in the group report of a “parent undertaking”;
 - the group report is prepared for a financial year of the parent that ends at the same time, or before the end of, the subsidiary’s financial year; and
 - the group report complies with the relevant obligations under the regulations on the parent to report energy and carbon information for themselves and their subsidiaries³; but this provision does not apply where the group report relies on a seriously prejudicial option.

Financial and Organisational Control

- 4.13 Charities must report on all operations that lie within their organisational boundary. A boundary can be either financial or operational.
- 4.14 Financial control is described in the [SECR Reporting Guidelines](#) as the ability to direct the financial and operating policies of the other entity with a view to gaining economic benefits. For environmental reporting purposes financial control is assumed to exist if the company is fully consolidated in the financial statements of the organisation. In this respect, environmental reporting largely follows the requirements of UK GAAP.
- 4.15 An exception to this requirement is for associates incorporated in the financial statements, as the organisation does not retain the full authority to introduce and implement policies in the operation.
- 4.16 Operational control exists if an organisation, or one of its subsidiaries, has full authority to introduce and implement the policies of the operation.
- 4.17 Charities must therefore report on all companies which are fully consolidated in the financial statements or where it retains full operational control. This is regardless of where those companies are registered (*though the Regulations allow for exclusion of reporting on emissions and energy consumption outside of the UK (see Regulation 20D(5)).*

³ See paragraph 20A sub paragraph (2) (c)(i). inserted into Part 7 as Part 7A of Schedule 7 of the 2008 Regulations by the 2018 Regulations.

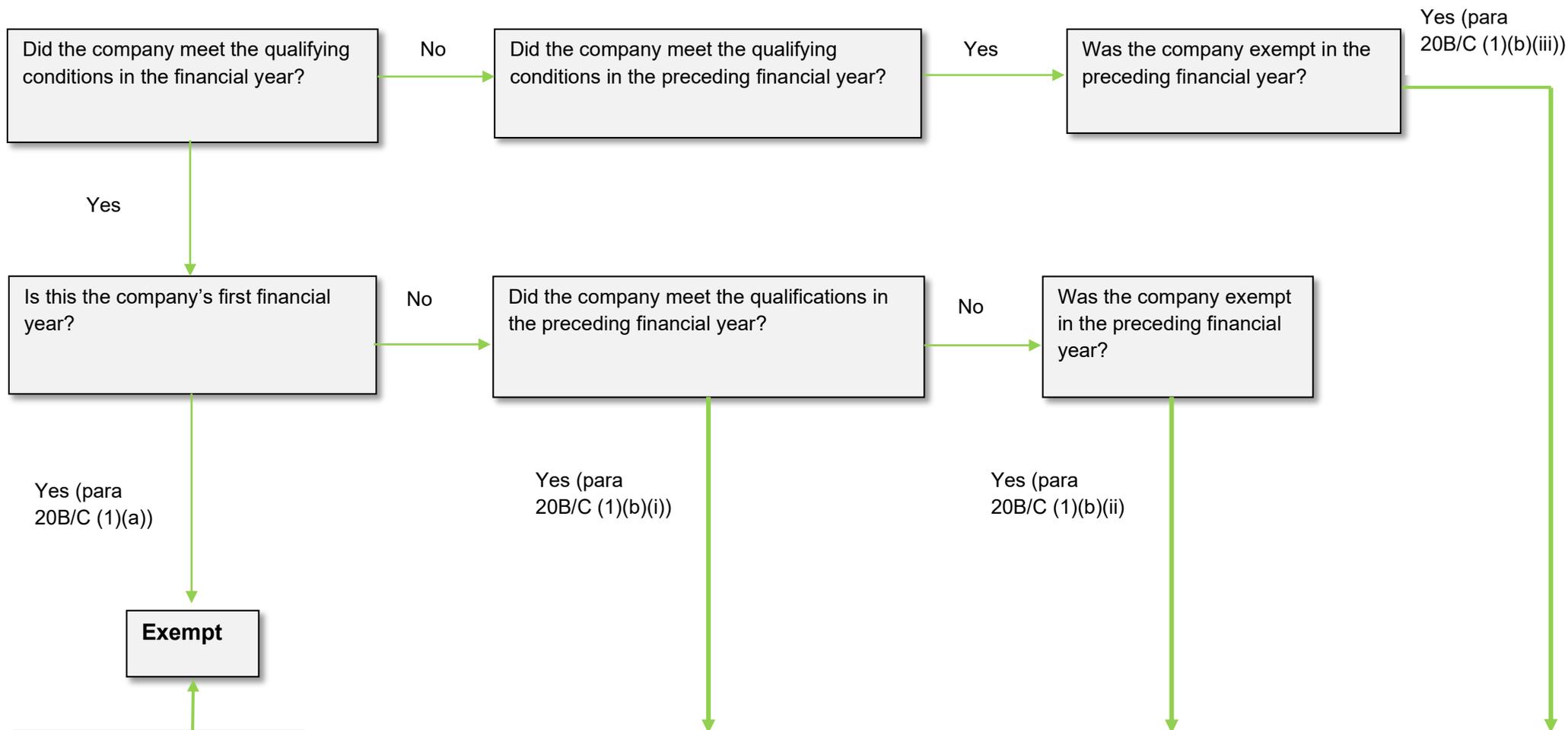
5. Further information

[The Companies \(Directors' Report\) and Limited Liability Partnerships \(Energy and Carbon Report\) Regulations 2018](#)

[The Large and Medium-sized Companies and Groups \(Accounts and Reports\) Regulations 2008](#)

[HM Government Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance](#)

Timing relating to qualifying conditions for exemption from being treated as 'large' (subsidiary and parent companies)⁴



⁴ This flow chart is based on the qualifications for exemption from the reporting of relevant information on energy and carbon reporting by virtue of the size of the company ie those meeting the qualifying conditions as a 'large' company (see paragraphs 20B and 20C inserted into Part 7 as Part 7A of Schedule 7 of the 2008 Regulations by the 2018 Regulations). [Section 4](#) covers other exemptions from the reporting requirements.