where future economic benefits will flow, they can be measured reliably and are separable.

The financial institution definition has been amended and it is likely more organisations will be caught by it, particularly incorporated friendly societies but also potentially some other charities as well. Charities which meet this definition must follow the financial institution requirements of section 34 of FRS 102, which require them to give additional disclosures about their financial instruments, including how they have been valued and the nature and extent of risks arising from them.

The requirement to disclose the carrying value of financial assets and liabilities at amortised cost / cost less impairment has been removed. However, charities are encouraged to make additional disclosures where they hold financial instruments and the risks arising from these are particularly significant.

Finally, the heritage assets initial valuation is expanded to cover binding sale agreements and willing parties at arms-length transactions, and the social investments initial valuations section has also been expanded.

New rules affecting energy performance certificates

New regulations introduced on 1 April 2018 are likely to have a major impact on charities and their property dealings, writes Nick Ivey, consultant at Stone King.

Energy performance certificates (EPCs), a standard part of most property transactions, are not new. Included in the Energy Performance of Buildings (England & Wales) Regulations 2012, they are designed to make information on the energy efficiency of a property available to buyers and tenants.

An EPC is designed to give relevant information on a property. It grades the energy efficiency of a property from “A”, which is the best possible result, down to “H”, and recommends works that might improve that rating. In public buildings of over 500m^2, an EPC must be displayed in a prominent place.

There are three obligations imposed on a seller where there is a proposed sale (including the assignment of an existing lease) or a letting. These are: to commission an EPC before marketing if there is no valid EPC in place; to put the EPC rating in any advertisements of the property for sale or for letting; and to make available to any prospective buyer or tenant a valid EPC for the property.

An EPC is prepared by a surveyor qualified to produce one. Government guidance is that an EPC remains valid for ten years, even if the property is sold or let during that period.

To date there have been no penalties for grading. However, the situation is changing. Broadly speaking, from 1 April 2018, where a new lease is granted to a new tenant or an existing tenant (including statutory renewal of commercial property) and an EPC is required or already exists, a property will be required to have at least an “E” rating.

> **“Charities are more likely to have older buildings with lower ratings”**

Furthermore, from 1 April 2023, all commercial lettings with an EPC (not just those involving a new lease) must have at least an “E” rating. This will include properties where a lease is already in place and an existing tenant is already in occupation.

As a warning of the scale of the potential works, *Estates Gazette* reported in 2014 that more than 200,000 commercial properties in England and Wales needed refurbishing to avoid them becoming illegal to let. With an estimated 16 per cent of commercial property stock holding an “F” or “G” rating, the cost of upgrading these premises was estimated at just under £30bn.

How does this affect the charity sector?

While there is no mention of charities in the regulations, and it was certainly not intended that the cost of compliance would fall on the sector, charities are more likely to have the type of tired and older buildings which fall into the lower EPC ratings. Therefore, while the legislation applies to all property owners and occupiers, charities in particular need to be aware of this issue.

Unless a property owner can claim an exemption under the regulations, they must undertake all of the relevant energy efficiency improvements if they wish to let property with an EPC rating of less than “E”.

The regulations do not specifically state who must pay for any necessary work, but they do provide that it is the seller/landlord who will be penalised for failure to comply, which therefore implies that it is they who would carry out the works.

If a landlord rents out a non-compliant property for a period of less than three months, then the penalty is either £5,000 or 10 per cent of the property's rateable value, depending which is greater. If they rent out a non-compliant property for three months or more, then the penalty is the greater of £10,000 and 20 per cent of the property's rateable value. Local authorities are responsible for the enforcement of the regulations.

There are several exemptions but these are relatively restricted. The big point to be aware of is that the regulations will only come into play if an EPC is required or already in existence, so voluntarily obtaining an EPC is generally not advisable.

Certain types of property are exempt from the requirement to obtain an EPC, including places of worship and religious activities, temporary properties with a planned time use of two years or less, listed buildings, and buildings in a conservation area where compliance with certain minimum energy efficiency requirements would unacceptably alter their character or appearance.

Businesses put under pressure to deliver better payment practices

A new reporting requirement for large companies has given smaller charities greater power to negotiate payment terms, says Tracey Moore, director at Moore Stephens.

It's over a year since regulations came into force requiring large companies and limited liability partnerships (LLPs) to report on their payment practices. Large charitable companies (both those limited by guarantee and by shares) and community interest companies are also caught by these regulations, and 31 October 2018 marks the first reporting deadline for those with March year ends.

Who is affected?

In brief, large charitable companies are defined as those that exceed at least two of the following criteria: £36m annual turnover; £18m balance sheet; 250 employees. There are additional tests for charitable companies with one or more subsidiaries.

The regulations are intended to clamp down on companies being slow to make payments to suppliers. The information that large charitable companies will have to report every six months includes narrative, statistics and statements. For example, you must give descriptions of your standard payment terms (including the standard contractual length of time for payment of invoices) and your process for resolving payment disputes.

Reported statistics must cover: the average number of days taken to make supplier payments in that reporting period; the percentage of payments made within 30 days, between 31 and 60 days, and in 61 days or more; and the percentage of payments due but not paid within the agreed payment period.

> **"Poor performance in reporting could be a source of embarrassment"**

Finally, you must make a number of statements, such as whether or not suppliers are offered e-invoicing and whether or not the business is a member of a payment code.

A report containing this information must be published via a government portal, and as soon as it is it will be visible to the public.

More negotiating power for suppliers

Any party interested in the payment practices of a large company or LLP can look up their reported information. It's hoped that this information can help potential suppliers, particularly smaller suppliers, to make informed decisions about whether to do business with a large company. In addition, if they see that the payment terms they are being offered are worse than those reported, they can use that knowledge to press for improved contract terms.

Users of the information companies report need to assess it carefully, of course. For example, care should be taken when interpreting the reported percentage of payments not paid within the agree payment period. One company's standard terms may be for payment within 30 days, while another's may extend to 75 days or more. Even if the first company pays a lower percentage of invoices within its standard period (30 days) than the second company, it may still be a more reliable payer.

Poor performance in reporting could be a source of embarrassment for large companies and LLPs, but they will need to report twice a year regardless. The regulations create two criminal offences – the first for failing to publish a report within the prescribed period, and the second for knowingly or recklessly publishing a report that is false or misleading. Both offences are punishable by fines.

Those affected by the regulations need to make sure their systems are up to the job. Review your current accounting systems – can they capture and extract the information you need to report?

Smaller charities supplying services to corporates should use the information to ensure they are being offered payment terms in line with those set out in the corporates' own report, and consider benchmarking companies they are contracting with against their competitors when negotiating the terms of any new contract.