HM Treasury

Financial Reporting Advisory Board
Sustainability Reporting Update

Issue:	An update from HM Treasury to FRAB (and FRAB-SSC) on the sustainability reporting developments in central government and elsewhere since the last FRAB meeting.
Impact on guidance:	No impacts on guidance are proposed in the paper. HM Treasury and FRAB-SSC are considering the impact of developments on climate- and sustainability-related reporting for public sector annual reports and accounts (ARAs).
IAS/IFRS adaptation?	No adaptations or interpretations are proposed in the paper; however, the Subcommittee may bring insights around interpretations of the IFRS framework to FRAB in the future.
Impact on WGA?	No immediate impact on WGA in the paper. Future advice on climate- and sustainability- related reporting may impact WGA's performance section.
IPSAS compliant?	IPSAS has not yet issued comprehensive guidance on climate- or sustainability-related reporting. The paper includes HM Treasury's response to IPSASB's consultation for developing a public sector sustainability reporting framework.
Interpretation for the public sector context?	Some interpretations and adaptations may be necessary to effectively implement sustainability- and climate-related reporting in the public sector.
Impact on budgetary and Estimates regimes?	N/A
Alignment with National Accounts	N/A - However, ESA10 guidance on non-financial reporting incorporates satellite accounts enlarging the scope of the accounting framework by adding nonmonetary information, e.g., on pollution and environmental assets.
Recommendation:	FRAB members are invited to comment on the paper and presentation. Members are encouraged to attend the next FRAB-SSC meeting where the TCFD implementation strategy will be discussed, along with the draft TCFD guidance for Phase 1 (expected for approval by the Board at FRAB 149).
Timing:	N/A

Background

1. At FRAB 147 on 29 and 30 June 2022, the ISSB presented on recent developments to sustainability standards. Furthermore, the Board was broadly supportive of HM Treasury's proposal at that meeting to adopt TCFD-aligned disclosure in public sector reporting.
2. HM Treasury has not convened a FRAB-SSC since FRAB 147; however, we will organise a Subcommittee meeting to discuss progress in the coming weeks. This FRAB paper is intended to update the Board on sustainability reporting developments since the last meeting and present our initial TCFD implementation strategy for comments.

Update

The International Sustainability Standards Board (ISSB)

3. At the latest ISSB meeting[1] on 21 October 2022, the Board analysed and discussed feedback received on the proposed standards. The ISSB:
    - confirmed the use of the TCFD architecture as the basis for its Standards;
    - confirmed (unanimously) that Scope 3 GHG emissions disclosure requirements would be applied with strong application support; offering relief provisions (e.g., comply or explain, delayed jurisdictional implementation, etc.);
    - decided to remove the term 'enterprise value' from the objective and the assessment of materiality, in addition to removing the term 'significant' to describe which sustainability risks and opportunities to disclose;
    - decided to apply the same definition of material as used in IFRS Accounting Standards and will discuss the need for further related guidance;
    - set out their approach for setting agenda priorities, including developing the two existing sustainability standards, as well as future standards.

The International Public Sector Accounting Standards Board (IPSASB)

4. HM Treasury responded independently to IPSASB's consultation on '*Advancing Public Sector Sustainability Reporting*' which closed on 9 September 2022 – with a copy included in Appendix 1 for further reference. The IPSASB consultation was discussed by the Subcommittee at their last meeting - refer to FRAB 147 (20).

The NAO study, related PAC report and external interest

5. On 4 July 2022, PAC held a hearing on the NAO's study[2] on Measuring and reporting public sector greenhouse gas emissions. The NAO's recommendations were discussed at FRAB-SSC 03 and summarised in the related minutes – refer to FRAB 147 (20).
6. The related P¬ report was published on 2 November 2022 which includes PAC's full conclusions and recommendations. Recent developments have increased the level of scrutiny on emission reporting (COP27, global performance on reducing emissions). Numerous news articles reported on the PAC report findings (The Financial Times, the

[1] https://www.ifrs.org/news-and-events/news/2022/10/issb-unanimously-confirms-scope-3-ghg-emissions-disclosure-requirements-with-strong-application-support-among-key-decisions/?utm_medium=email&utm_source=website-follows-alert&utm_campaign=immediate
[2] https://www.nao.org.uk/reports/measuring-and-reporting-public-sector-greenhouse-gas-emissions/

Guardian, Edie). An evaluation of the TCFD implementation strategy against the PAC reporting findings and recommendations has been included in Appendix 2.

Forward plan

Application guidance on climate-related issues

7. At FRAB-SSC 02 in March 2022, the Subcommittee agreed that HM Treasury should develop application guidance on climate-related issues for use by public sector preparers – refer to FRAB 146 (09). Choosing to address application guidance first, was primarily driven by the overlap with FRAB's existing remit. However, the Subcommittee had noted that there was substantial existing guidance available (some of which was presented at the meeting).

8. The ISSB's publications and the NAO study impacted the time and resource available to develop the application guidance. In parallel, TCFD-related developments in the private sector, by standard setters and related Public Accounts Committee interest (on the NAO study and on the new standards) have shifted the reporting priority focus. HM Treasury will discuss and reassess the prioritisation at the next FRAB-SSC meeting.

TCFD implementation project and stakeholder engagement

9. On 1 September 2022, the Chief Secretary to the Treasury agreed with the proposal to:

    - Commence a phased/staggered implementation of TCFD-aligned disclosure in central government ARAs;
    - Respond supportively to IPSASB's proposal to develop a sustainability reporting framework specifically for the public sector;

10. On 17 November 2022, HM Treasury presented the initial TCFD implementation strategy to the Finance Leadership Group (FLG). HM Treasury will provide a verbal update on the reaction from departments.

11. The initial TCFD implementation strategy, presented to FLG, has been included as Annex 1 and will be presented to the Board at this meeting. This includes an overview of the next steps, future FRAB and FRAB-SSC engagement, and initial considerations.

12. HM Treasury plan to inform the Environmental Audit Committee (EAC) of the developments in central government sustainability reporting and the establishment and advise of the FRAB-SSC.

Recommendations

13. **No decisions are required** from FRAB in respect of this paper, however, FRAB members should consider whether they (or appropriate representatives) should attend the next FRAB-SSC meeting (in early 2023) where the Subcommittee will discuss and finalise the TCFD implementation strategy and review the draft TCFD guidance for Phase 1 (for application from 2023-24 annual reports). Both the TCFD implementation strategy and TCFD Phase 1 guidance will be presented for final review and approval by FRAB in March 2023.

Appendix 1 – HMT response to IPSASB consultation

HM Treasury

Michael Sunderland
Government Financial Reporting
HM Treasury
1 Horse Guards Road
SW1A 2HQ

[email address removed for Gov.uk publication]

Mr Ian Carruthers

Chair, International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2
CANADA

RESPONSE TO CONSULTATION, ADVANCING PUBLIC SECTOR SUSTAINABILITY REPORTING

KEY POINTS

Introduction

1. HM Treasury (HMT) welcomes the opportunity to comment on the proposals set out in the International Public Sector Accounting Standards Board's (IPSASB) consultation paper, 'Advancing Public Sector Sustainability Reporting'.
2. Public sector sustainability reporting is a valuable vehicle to provide users with relevant, consistent and understandable information to hold governments to account. HMT has responded to each of the consultation's Preliminary Views (PVs) and Specific Matters for Comment (PMCs) in this letter.

Summary

3. HMT supports the IPSASB's case for the development of public sector sustainability guidance anchored around established frameworks, including the UN Sustainable Development Goals (SDGs), the Task force for Climate-related Financial Disclosure (TCFD) and the International Sustainability Standard Board (ISSB) frameworks.
4. The framework would have to address the principal differences between the public and private sectors to avoid unnecessary and irrelevant disclosures. Furthermore, IPSASB will likely have to interpret and adapt private sector concepts and characteristics for the public sector context (e.g., profit motive, funding arrangements, governance structures, authority for strategy and decision making, etc,).
5. HMT supports IPSASB's proposal to develop guidance that considers reporting on broader sustainability information, recognising the extensive stakeholder base and wider role of governments. On a conceptual level, developing sustainability standards will raise new challenges which haven't been encountered in previous work on financial reporting standards (e.g., the fungibility of certain sustainability information).

Chapter 1: Public Sector Sustainability Reporting Guidance Drivers

PV1. The IPSASB's view is that there is a need for global public sector specific sustainability reporting guidance. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

6. HMT recognise the potential value in developing global public sector specific sustainability reporting guidance.
7. This view is based on the perceived challenges in applying private sector guidance, as well as in addressing a government's wider stewardship responsibilities and external influence. The public sector is usually accountable to a broader array of stakeholders compared to the private sector. Furthermore, governments exerts significant influence over the wider economy, through fiscal policy, legislation and regulation.
8. HMT supports the broad case made for public sector sustainability reporting guidance. However, the relevance to capital markets of individual entity-focused reporting is less apparent. In the UK, for example, central government financing is usually at a sectoral level rather than an entity level, with central government bodies predominantly financed through the Exchequer. By implication, investor information is most relevant at this sectoral level, with a significant level of aggregation.
9. The World Bank's proposal[1] sights the aspiration of countries to attract investment, as well as the growing investor demand for better sustainability information as key reasons to develop a public sector sustainability reporting framework. However, before a mature level of reporting has developed, there is a need to be mindful of the risks of so-called greenwashing, and an accompanying risk that new reporting burdens deliver limited tangible benefits.
10. Jurisdictions already have different measures of what constitutes 'green' with numerous existing and upcoming taxonomies. This is a complex area which is evolving at speed. It may be more resource efficient for IPSASB's initial focus to remain on objectives where there is a greater level of international alignment and consensus (e.g., public accountability, and improved transparency).

Chapter 2: Strategic Fit for the IPSASB

PV2. The IPSASB's experience, processes and relationships would enable it to develop global public sector specific sustainability reporting guidance effectively. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

11. HMT agree that IPSASB's experience, processes and relationships make it well placed to develop global public sector specific sustainability reporting guidance effectively. The development of guidance at pace will likely require new capabilities and focused resourcing. In the absence of this, there is a risk that jurisdictions need to move faster than the development of IPSASB's guidance, which could lead to suboptimal outcomes in terms of the development and adoption of such guidance.
12. This position strengthens the case for the Board to leverage existing and emerging private sector reporting frameworks (the TCFD and the ISSB).

---

[1] January 2022, World Bank report on [Sovereign Climate and Nature Reporting: Proposal for a Risks and Opportunities Disclosure Framework]

13. Conceptually, sustainability reporting raises new challenges which would need to be addressed. Unlike financial reporting, sustainable information may not be fungible (e.g., water usage metrics will be more significant to users in regions where there is water scarcity). Furthermore, successfully addressing the linkage and interaction of different sustainability risks and opportunities may also prove challenging.

Chapter 3: Public Sector Approach

SMC1. If the IPSASB were to develop global public sector specific sustainability reporting guidance, please tell us what topics you see as most pressing in your jurisdiction and why these should be prioritized by the IPSASB.

14. HMT supports IPSASB's proposal to prioritise UN SDGs and materiality.

15. HMT has a preference that the Natural Resources Project remains separate. As there is likely to be overlap, in our view, IPSASB should tackle the further reaching (and more urgent) Sustainability Reporting Project first to reduce the risk of misalignment between the two.

16. HMT support IPSASB's proposal to collaborate with existing standard setters to leverage guidance. However, doing so may inhibit the Board's ability to independently select sustainability topics on specific themes – the implications of this are explored further in PV3.

17. The development of global public sector guidance could support national harmonisation as well as international harmonisation. The authority for setting sustainability reporting requirements in the public sector can lie at different levels (e.g., national, regional and local government) and sub-sectors (e.g., education, health, etc.). These can develop with a strong focus on the bespoke needs of the administration level or sector. An external independent sustainability reporting framework for the public sector would likely promote a level of consistency both nationally and internationally.

18. IPSASB's proposal to prioritise guidance on 'complete sector versus entity' would be useful; however, to do this successfully the Board would need a good understanding of the opportunities and challenges for both of these options.

19. IPSASB would benefit from addressing the sector specific issues and challenges public sector sustainability reporting faces, as this is less likely to overlap with the work programmes of private sector standard setters.

PV3. If the IPSASB were to develop global public sector-specific sustainability reporting guidance it proposes applying the framework in Figure 5. In developing such guidance, the IPSASB would work in collaboration with other international bodies, where appropriate, through the application of its current processes. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, explaining what alternatives you would propose, and why.

Overview

20. HMT support IPSASB's proposal to collaborate with other international organisations and standard setters – specifically the TCFD and the ISSB.

21. The TCFD recommendations have been adopted widely in the private sector across jurisdictions. Other standard setters have successfully adapted and applied the framework's structure and principles. HMT is therefore developing TCFD-aligned disclosure requirements for the UK central government sector.

22. By aligning with emerging private sector sustainability reporting frameworks (e.g., the ISSB), IPSASB's prioritisation for topics would need to interlink with their respective work programmes. The prioritisation of sustainability topics may not align with priorities for the public sector. The ISSB's work plan will be driven by market participants, while public sector reporting may favour a prioritisation of sustainability topics related to their stewardship responsibilities (e.g., biodiversity, natural capital accounting).

23. Where IPSASB independently develops guidance on sustainability topics first, there is a risk of misalignment with future work from other standard setters. This risk may be mitigated through well considered general principles, combined with close collaboration and communication with these standard setters. Where IPSASB chooses to wait until another standard setter addresses the topics first, public sector jurisdictions may face the choice of filling the space with their own approach or risk a significant transparency lag with the private sector while IPSASB undertakes its due process.

Financial Sustainability-related Information – Block 1

24. IPSASB's well-established process for reviewing and modifying IASB guidance would likely enable effective collaboration with the ISSB. This demonstrates a consistent approach and direction for the Board. HMT is supportive of IPSASB adopting a similar overall approach to the ISSB. The ISSB's regular updates and communication (including the July 2022 Agenda Prioritise Project[2]) would enable IPSASB to develop and maintain a work programme that supports coherence with ISSB.

25. There are, however, certain obstacles to adapting the ISSB's standards which should not be underestimated. The UK Financial Reporting Advisory Board (FRAB) and FRAB Sustainability Subcommittee (FRAB-SSC) considered these in their June 2022 paper[3].

26. The ISSB's focus on enterprise value, defined as market capitalisation less debt[4], cannot be easily interpreted in a public sector context. The majority of users of public sector accounts are not assessing an entity from an investor perspective. Future cash flows are far less relevant, as the public sector is more focused on achieving policy goals and delivering public services.

27. The requirement for an entity to disclose information on significant sustainability-related risks from an investor viewpoint would overlook certain significant sustainability-related risks that governments face which don't directly impact enterprise value (e.g., stewardship over biodiversity). Applying financial risk analysis,

---

[2] In July 2022, ISSB consulted on the agenda prioritise (AP1) publishing the Introduction and Overview and Items to be Considered

[3] In June 2022, the published paper FRAB 147 (20) Sustainability Reporting Update was discussed and agreed.

[4] Enterprise value defined in Appendix A of the ISSB's exposure draft IFRS-S2 Climate-related disclosures

in many cases, lacks relevance to the broader array of stakeholders to which government is accountable.

28. IPSASB must consider the relevance of the ISSB's disclosure requirements in the public sector context. It will be crucial to avoid burdensome and lengthy disclosures of limited relevance in the public sector. IPSASB may need to be bold in the judgements it makes in this regard. Allowing preparers to apply different disclosures depending on the circumstances of the entity (e.g., funding arrangements, governance, etc.) may be an effective way to achieve this.

29. The structure of public sector decision making may often not align with the structures of private sector organisations. The ISSB's exposure drafts align closely with the TCFD framework's structure, but with an increased focus on compliance – as opposed to the principles-based journey ('comply or explain') of the initial TCFD guidance. Given the global heterogeneity of public sector bodies, IPSASB may want to anchor its approach at a more principles based level.

Broader sustainability-related Information – Block 2

30. HMT are supportive of IPSASB collaborating with and drawing on guidance from voluntary standard setters (e.g., Global Reporting Initiative (GRI)). However, the project must recognise that jurisdictions may have existing embedded reporting processes and methodologies - outside of annual reports and financial statements - for measuring, collecting and reporting sustainability information.

31. To avoid inefficient dual reporting processes, where possible IPSASB should apply well-established frameworks (e.g., GHG protocol) and allow for increased flexibility during implementation (e.g., comply or explain with a focus on the direction of travel).

PV4. If the IPSASB were to develop global public sector specific sustainability reporting guidance, it would address general sustainability-related information and climate-related disclosures as its first topics. Subsequent priority topics would be determined in the light of responses to this Consultation Paper as part of the development of its 2024-2028 Strategy. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, explaining which topics the IPSASB should prioritize instead, and why.

32. HMT agrees with IPSASB's proposal to address the general sustainability-related information and climate-related disclosures first – aligning with the ISSB's work programme. For nuanced public sector issues, raised in SMC1, IPSASB would be able to develop solutions in parallel to the ISSB development work.

Chapter 4: Key Enablers

PV5. The key enablers identified in paragraph 4.2 are needed in order for the IPSASB to take forward the development of global public sector specific sustainability reporting guidance. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, identifying which of the proposed key enablers you disagree with, and why.

33. HMT agrees with IPSASB's view on key enablers.

34. Aligned with our response in PV1, HMT would draw caution in applying excessive focus to investors in government bonds when establishing a Sustainability Reference Group, but it will be important to ensure input from producers and standard setters

of aggregated data sets that may meet the needs of such investors (e.g., the statistical community) to support alignment and consistency.

35. Given the pace of developments, ensuring an ongoing dialogue with national standard setters, who may be developing their regimes in parallel, will be essential.

SMC2. To what extent would you be willing to contribute financial or other support to the IPSASB for the development of global public sector specific sustainability reporting guidance?

36. Where appropriate, HMT would provide direct engagement to support the development of the framework, including drawing on the expertise and interest of the wider UK administration as appropriate.

Appendix 2

Current sustainability reporting strategy and the PAC report recommendations

1. This appendix identifies PAC report elements relevant to FRAB and FRAB-SSC, as well as evaluating whether the findings and recommendations are being addressed by the proposed future strategy, namely adopting TCFD-aligned disclosure.
2. While adopting the TCFD framework will go some way in addressing specific findings and recommendations; HM Treasury recognise that adopting the TCFD-aligned disclosures alone will not address the identified weaknesses. As HM Treasury only has the authority to set reporting requirements for central government, the success and impact of TCFD-implementation will be dependent on wider views from across the public sector. Furthermore, there may be unforeseen implementation challenges.
3. Successfully addressing PAC's recommendations will require coordinating efforts with BEIS, Defra and other bodies on various different future policies and strategies. This Annex is not an official response to the PAC report (or Treasury Minute). HM Treasury is working with BEIS and Defra on an official coordinated response which considers all the other relevant policies and strategies which have not been addressed in this paper.

Conclusion 2 - The public sector as a whole lacks clear standards for measuring and reporting emissions.

Recommendation 2 - BEIS and HM Treasury should set a timetable for issuing consistent standards for measuring and reporting emissions that is applicable to the entire public sector.

4. HM Treasury doesn't have authority to set reporting standards for the public sector or control the timetable for implementing changes. Instead, FRAB advises on reporting standards for public sector annual reports, with relevant authorities deciding how best (and when) to implement their advice. FRAB-SSC's terms of reference include the remit *to consider the climate-related and sustainability reporting frameworks and development of standards for annual reports and accounts in the public sector*.
5. New sustainability reporting frameworks, including the related consultations and exposure drafts by the ISSB and IPSASB, have received encouraging feedback and international support. As these frameworks formalise and are adopted, the sustainability (and emissions) reporting landscape is becoming clearer. The consolidation of previous frameworks, collaboration amongst emerging standard setters, and developments in the UK private sector, are all setting a much clearer path for sustainability-related reporting.
6. In June 2022, FRAB was broadly in favour of HM Treasury's proposal to adopt TCFD-aligned disclosure in central government and across the public sector. HM Treasury is currently planning the implementation for central government.

7. If accepted by relevant authorities and fully implemented, TCFD-aligned disclosures would provide a single framework for reporting on climate-related risks (including emissions), as well as advancing UK public sector reporting to align more closely with future standards that have built on the TCFD structure.

8. HM Treasury's proposed TCFD implementation timetable runs in three successive reporting periods from 2023-24 to 2025-26. However, the timetable would be subject to change based on ongoing feedback received from stakeholders, quality assessment for each round of ARAs, and considering other external factors (resourcing, reporting challenges, developments by standard setters, etc.).

9. HM Treasury would encourage (and support) relevant authorities to implement TCFD-aligned disclosure to a similar timescale; however, each section of the public sector will face different challenges based on the current emissions reporting requirements, capacity and external environment.

Conclusion 3: Leadership and oversight of emissions measurement and reporting in central government is fragmented and ineffective.

Recommendation 3: BEIS, HM Treasury and Defra should work together to consolidate, simplify and clarify current measuring and reporting guidance. This should set out clear expectations for reporting across central government as well as the processes that will be followed in addressing non-compliance

10. Adopting TCFD-aligned disclosure in public sector annual reports would provide a clear direction and set of guidance for preparers to follow and relevant authorities to reference. Our proposed implementation strategy would allow flexibility for relevant authorities to incorporate existing jurisdictional reporting requirement and guidance – by applying public sector adaptations and interpretations - limiting duplication or unnecessary reporting.

11. The implementation timetable, with the proposed final phase in 2025-26, allows for HM Treasury and Defra to manage related central government reporting requirements with the next round of GGCs for 2025-30 - which is also due for publication in 2025-26. HM Treasury will work with BEIS and Defra (and other departments) to align existing emissions measurement methodologies, as well as assess developments for annual reports by sustainability standard setters or the UK private sector.

12. Ostensibly implementing TCFD-aligned disclosures could be seen as expanding the existing array of guidance rather than consolidating and simplifying as recommended by PAC. However, for central government our intention is to adopt the existing SRG emissions reporting regime for the required metrics and targets disclosures - which already apply the GHG Protocol (in line with TCFD guidance). Additionally, the implementation strategy will aim to consolidate and align existing reporting requirements, including:

    SRG reporting requirements on:

    - the Climate Change Adaption Strategy

- other government policies aimed at reducing GHG emissions (e.g., reporting on Ultra Low and Zero Emissions Vehicles in the government car fleet). These policies are driven by the GGC and adopted in the SRG

FReM reporting requirements on:

- risk reporting in the performance report where specifically related to climate change
- other performance reporting related to climate change (priority outcomes, strategic objectives and departmental goals)

13. Focusing on a single climate-related reporting framework, with closer alignment with the private sector and developments by standard setters, will likely harmonize public sector reporting.

Conclusion 4: We are not convinced that departments are making effective use of the emissions data to drive decision-making.

Recommendation 4: BEIS should make full use of the data it collates to plan its decarbonisation activities and establish a process to regularly identify and share examples of good practice and learning in decarbonisation across central government and the wider public sector.

14. While Recommendation 4 is directed at BEIS, adopting the TCFD recommendations in public sector reporting would drive connectivity between decisions on climate-related risks and the underlying emissions data, through governance and reporting processes.
15. The TCFD core elements include recommended disclosures around governance, strategy and metrics and targets, which are intended to interlink and inform each other. TCFD recommendations provide management with appropriate data to inform future strategy and risk management - supporting the organisation to meet its objectives.

Conclusion 5: The public sector risks falling behind on the reporting of its emissions but could learn from developing practice in private sector and the devolved administrations.

Recommendation 5: BEIS and HM Treasury should ensure that the reporting requirements placed on the public sector are aligned with their objective to lead by example in delivering net zero. This should include consideration of which bodies should report their scope 3 emissions and how best this should be done.

16. BEIS owns the public sector emissions reporting policy and has significant expertise in this area. Emissions reporting decisions would be considered in collaboration with and direction from BEIS.
17. Our response to Recommendation 2 (para. 4) addresses the potential impact of developments in the UK private sector on our public sector sustainability reporting strategy.
18. One of the TCFD recommended disclosures on metrics and targets requires organisations to *disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions* and the guidance states *The Task Force strongly encourages all*

organizations to disclose Scope 3 GHG emissions… such emissions are an important metric reflecting an organization's exposure to climate-related risks and opportunities. In October 2021, TCFD published an updated report[3] which added further guidance on reporting Scope 3 GHG emissions, as well as emphasising their importance.

19. For central government, the SRG already requires limited reporting on Scope 3 GHG emission for business travel only (in line with the GGCs). Furthermore, the SRG provides guidance for further voluntary reporting on Scope 3. The TCFD guidance on Scope 3 would provide a clearer route for preparers to expand emissions reporting– in line with the PAC recommendation.

20. There are certain challenges in expanding the emission scopes including:

    - More effective alternatives - central government, and to a lesser extent the wider public sector, has centralised control over certain policies and procedures. This offers levers to force (or encourage) action to reduce indirect emissions (e.g., procurement policy, programme appraisals).
    - Focus – the emissions profile vary dramatically depending on organisation's operations and characteristics. Identifying focus areas for reporting is likely to deliver better value for money – compared to applying a 'one size fits all' approach.
    - Capacity – measuring and reporting of Scope 3 GHG emissions requires significant resource (e.g., data availability, supply chain data collection, related expertise). Before adding an additional burden, relevant authorities would need to consider the capacity across their sub-sectors.

[3] TCFD recommendations report: https://www.fsb-tcfd.org/publications/

HM Treasury

TCFD-aligned disclosure implementation project

17 November 2022

HM Treasury

Topics for FLG discussion

- *Views on the proposed TCFD implementation strategy, including the phased approach and timetable*
- *Views and comments from early adopters of the TCFD-aligned disclosure*
- *Views on usefulness of roundtables hosted by:*
    - *GAD/HMT on TCFD implementation project, Jan-22*
    - *ICAEW on sustainability reporting in the PS, Mar-22*
- *Preparers interest in volunteering for Phase 2 pilot*

TCFD – Introduction

Background

- The Taskforce on Climate-related Financial Disclosure (TCFD) framework provides annual report users with clear, comprehensive, high-quality sustainability-related information for financial decision making.
- TCFD recommendations are being adopted internationally by the private sector and incorporated into proposed reporting frameworks by standard setters (ISSB, IPSAS).
- The former Chancellor, Rishi Sunak, announced the intention for TCFD-aligned disclosures to be fully mandatory across the UK economy by 2025.

FRAB and developments in central government

- The FRAB Sustainability Subcommittee (FRAB-SSC) was established to consider these development and advise on future sustainability reporting strategy for annual reports.
- In June 2022, FRAB advised central government and the wider Public Sector (PS) to **adopt TCFD-aligned disclosure in annual reports**.
- The former Chief Secretary to the Treasury agreed to adopt TCFD-aligned disclosure in central government annual reports and accounts (ARAs).

ISSB - International Sustainability Standards Board; IPSASB - International Public Sector Accounting Standards Board

TCFD – Overview

UK public sector adopters
UKEF, BBC, The Crown Estate, The Bank of England, Pension Protection Fund, FCA, FRC, Ordnance Survey

Thematic areas (core elements, pillars)	Governance	Strategy	Risk Management	Metrics and Targets
Recommendations	Disclose the organisation's governance around climate related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended disclosures	a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	a) Describe the organisation's processes for identifying and assessing climate-related risks	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
	b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	b) Describe the organisation's processes for managing climate-related risks	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
		c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

TCFD – Private sector adoption

Established by the Financial Stability Board in 2015

Aims to improve/expand reporting of climate-related financial information

Published first report and recommendations in June 2017 and updated report in October 2021

UK Government endorsed the TCFD framework in September 2017

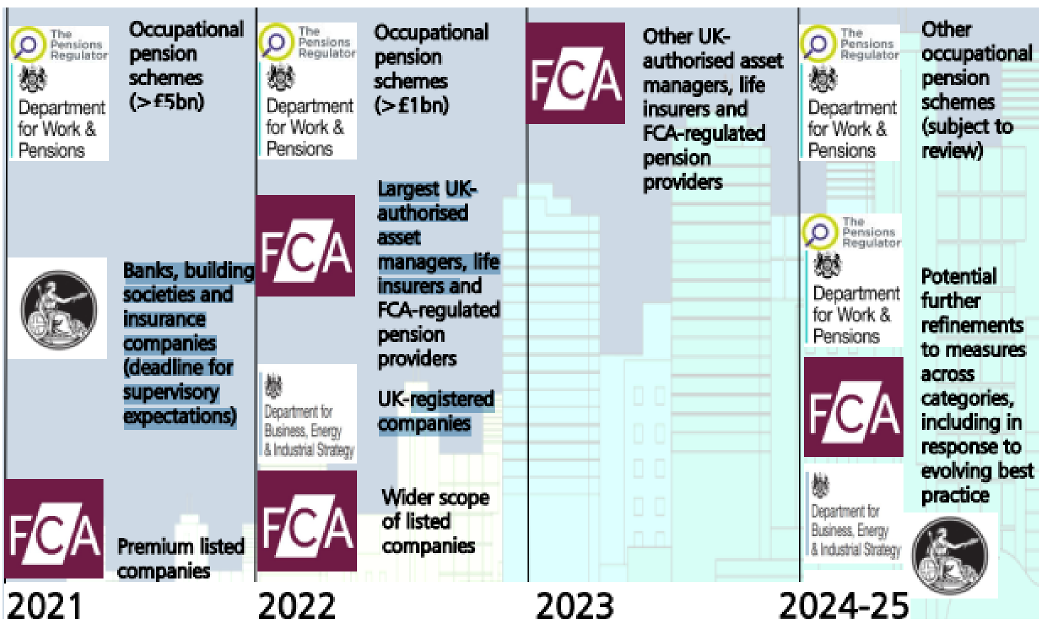
Established the UK joint regulator and government taskforce

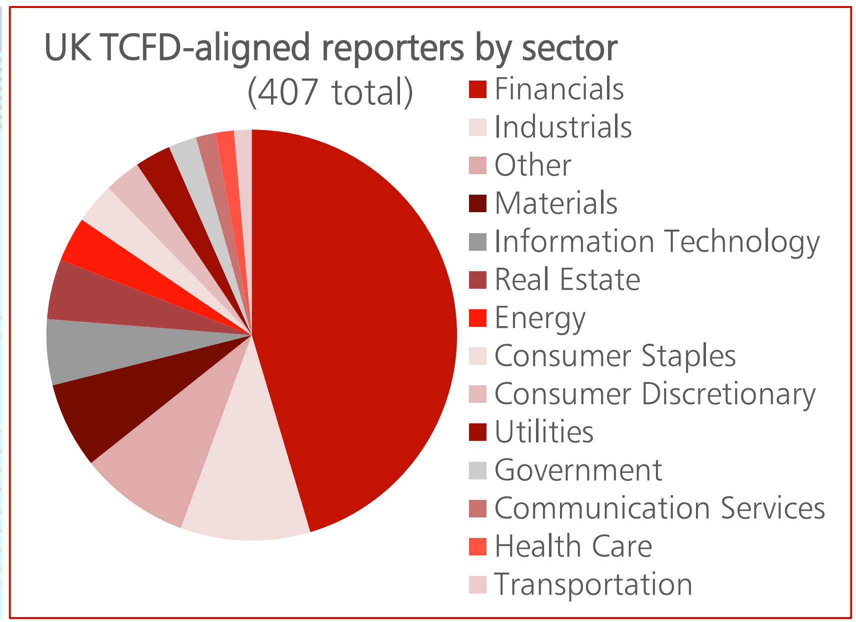
Worldwide

+ 2,500 TCFD-aligned annual reports

Mostly financial services and public companies

Public sector reporting, includes: central banks, government departments, local governments





TCFD – Benefits for central government (and wider public sector) adoption

The TCFD framework was designed predominantly for the private sector to provide sustainability-related information to investors and asset managers for financial decision making.

The PS similarly requires climate-related information for **decision making** and **accountability** to the users of financial reporting. The benefits of TCFD disclosure are centered around reporting quality and management information. There are, however, limitations to PS adoption concerning relevance and suitability.

Quality	• Upholding 'best practice' and maintaining pace • Aligns with developments by standard setters • Comparability to the private sector and internationally • Consistency across the public sector (i.e. PCs, voluntary adopters) • Provides clarity and direction to preparers
Management Information	• Decision useful information for departments • Prompts better stewardship and governance • Potential consolidation of emissions data into WGA • Improved processes for managing climate-related risks • Improved asset management
Wider benefits	• Potential benefit for UK sovereign bond markets • Signals support for the TCFD framework • Public perception signalling to the public the government is managing PS climate-related risks • Addresses certain recommendations from the NAO and PAC

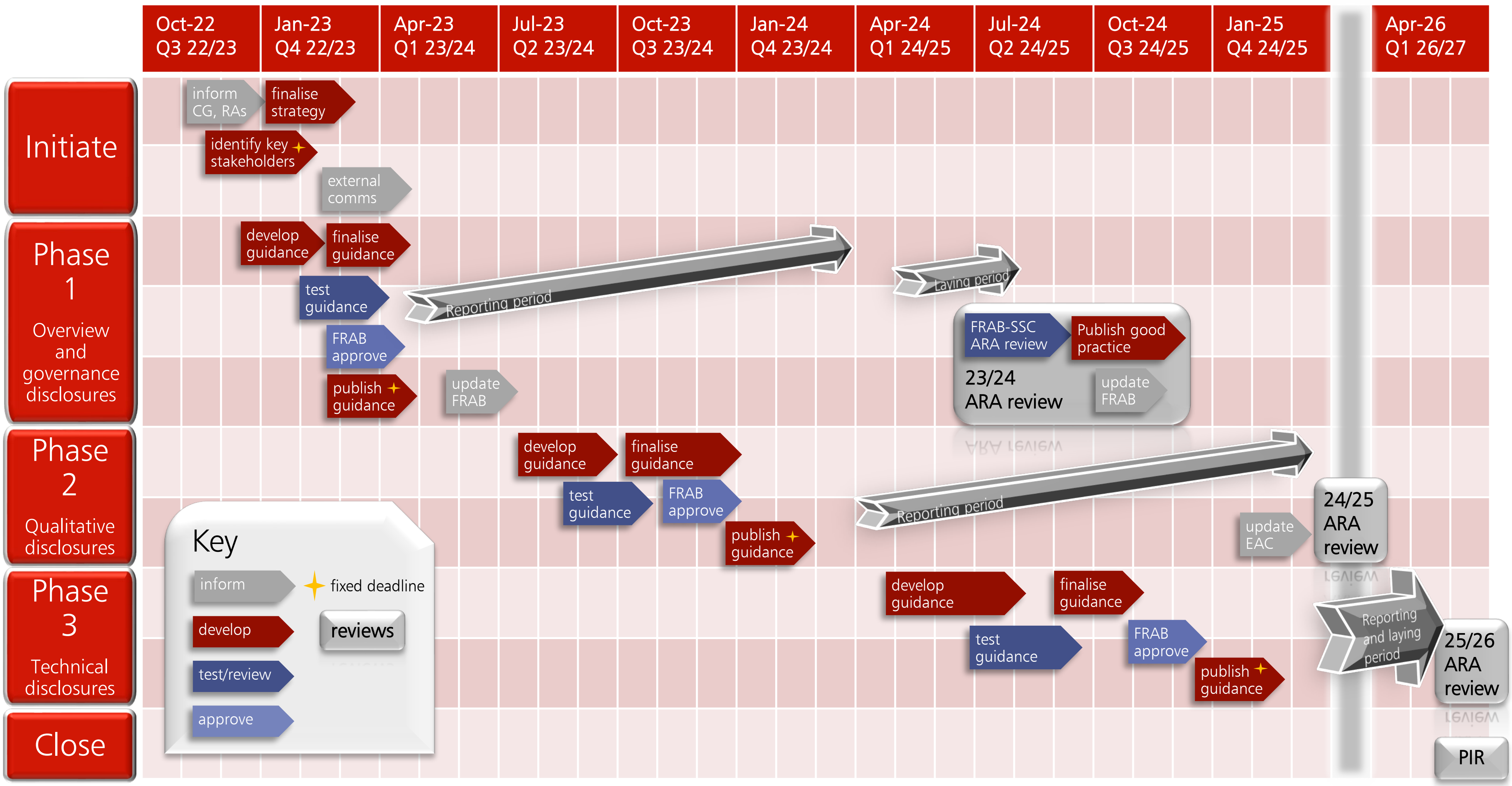
We put finance at the heart of decision-making. Delivering value for money, strengthening public trust

Adoption of TCFD aligns with FLG's strategy for the GFF:

- Providing insights to **improve decision-making** in support delivery of the government's Net Zero priority.
- Adoption of best practice in governance and risk management to **deliver greater value for money.**
- Improving accountability and focus on long-term outcomes to **strengthen public trust.**

PCs – public corporations; WGA – Whole of Government Accounts

Implementation – Full timetable



HM Treasury

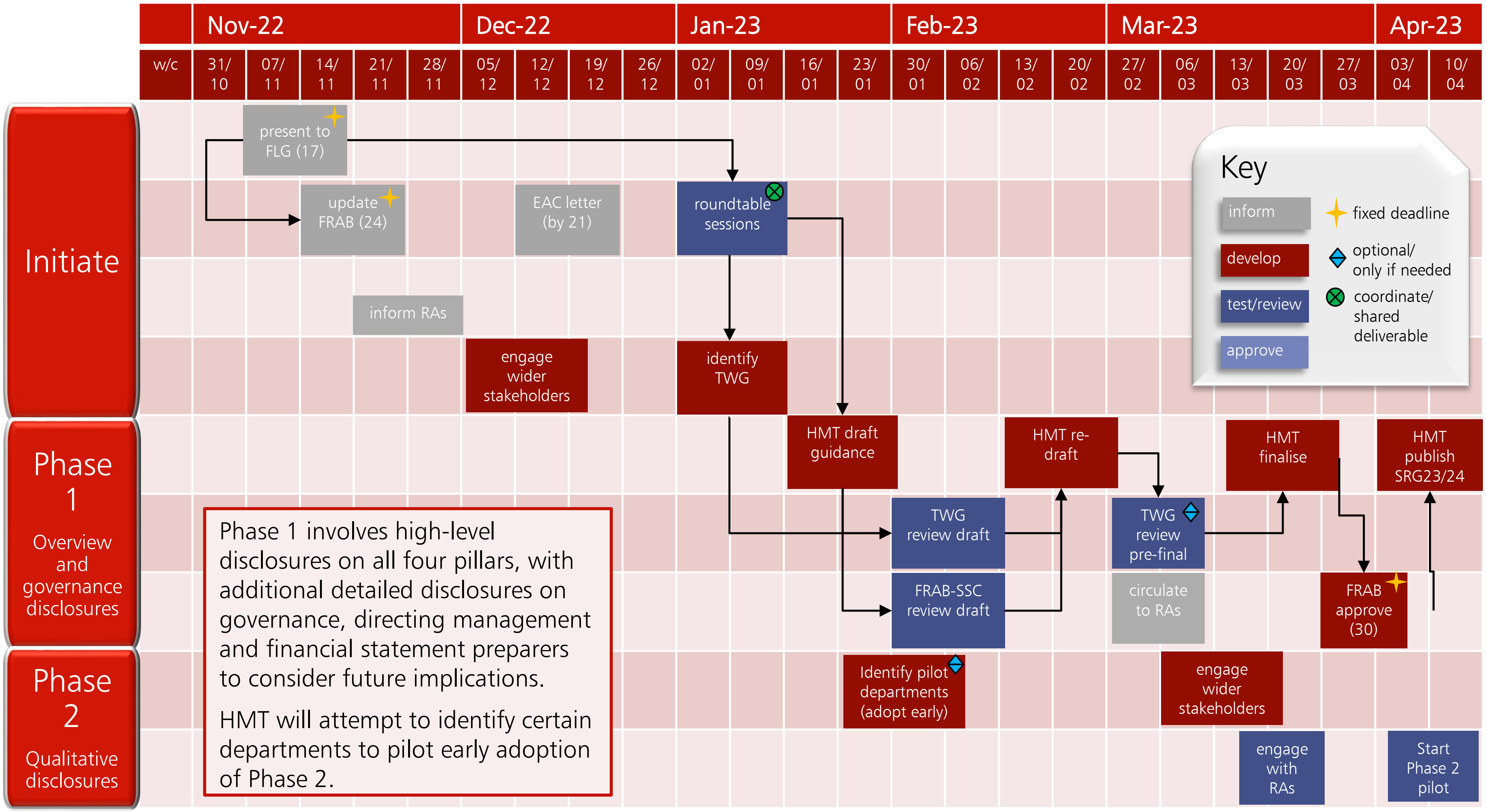
CG – central government; RA – relevant authority; comms – communications; PIR – post implementation review

Implementation – Phase overview

	Phase 1 Overview and governance disclosures	Phase 2 Qualitative disclosures	Phase 3 Technical disclosures
Target	2023-24 (from 1 April 2023)	2024-25 (from 1 April 2024)	2025-26 (from 1 April 2025)
Focus	Qualitative focus Comply	Qualitative focus Comply or explain	Quantitative focus Comply (all Phase 2) or explain (Phase 3 only)
Disclosure	Disclosure on four pillars: • Governance • Strategy • Risk management • Metrics and targets Apply recommended disclosures on governance	Apply TCFD recommended disclosures to • strategy (inward focus) • risk management (limited) • metrics and targets (existing reporting)	Apply TCFD recommended disclosures and guidance, for: • strategy (consider outward focus) • risk management (full) • climate modelling (TBD) • metrics and targets (align with TCFD)
Metrics and targets	Continue to apply GGC21-25 for emissions on metrics and targets, consolidating data at a department group level - inline with SRG.	Continue to apply GGC21-25 emissions metrics and targets, inline with SRG Consider additional metrics	New GGC period 25-30 (applied from 1 April 2025) SRG reporting metrics align with TCFD (Defra could align GGCs)
Scope	To be applied by departments on their departmental group. Management reporting may be required on specific significant climate-related risks.	To be applied by departments on their departmental group + central government bodies above size threshold	All departments on their departmental group Limited TCFD-disclosure by central government bodies (above threshold)

TBD – to be determined

Implementation – Phase 1 (and 6 months plan)



HM Treasury

w/c – week commencing; (dd) – day of event in month

Supporters - Roundtables

Purpose

To discuss the proposed TCFD implementation strategy and identify key stakeholders

Size

Large group (>40)

Timing

Timing: Jan-23 (before developing guidance)

Count: 2 sessions to maximise attendance

Length: 2 hours to half day

Frequency: Potentially after first set of guidance

Objectives

Announce: raise awareness,

Development: initial sounding platform, assess appetite, identify/understand potential challenges, discuss implementation strategy and proposed timetable

Stakeholders: engage champions and advocates, identify preparers with skills and experience for technical working group, identify potential pilot early adopters (Phase 2) early

Agenda

Introduction to TCFD and strategy

Case study from early adopter

Presentation from GAD

Presentation from expert

Next steps (Technical Working Group)

Pilot departments to adopt Phase 2 (as well as Phase 1) in 23/24

Composition

Seniors or working level (both)

Accountants (focus) or thematic experts (limited)

Departments (focus) or other central government bodies (limited)

All or most heavily affected bodies (both)

Experience or novice (both)

Logistics

GOGGS (if space available) or other government office.

Consider logistics and refreshments

Offer one hybrid session

Products

Recording of key presentations, FAQs, news article for OneFinance

Supporters - Technical Working Group

Purpose
To identify implementation challenges and propose adaptations and interpretations to guidance.

Timing
Timing: from Feb-23 (while developing guidance)

Count: 1 session for focus

Length: 1-2 hours

Frequency: At each stage of guidance development / 3-4 sessions per year

Objectives
Announce: feasibility of proposals

Development: identify implementation and application challenges, discuss and decide on future solutions, design adaptations and interpretations.

Stakeholders: monitor early adopters/implementation progress

Agenda
First session:

Introductions

Review early adopters case studies

Discuss proposal and early draft

Feedback

Future sessions:

Review guidance

Discuss proposals

Present topic or issue for discussion

Size
Medium group (<15)

Composition
Preparers (early voluntary adopters, pilot departments)

Thematic experts (risk experts, etc.)

TCFD experts (policy experts)

User representative

Consider: small CG body, regulated entity, auditors

Logistics
Hybrid sessions

Products
Tested guidance: application guidance, FAQs, updates, etc for each implementation phase.

Supporters - FRAB Sustainability Subcommittee (FRAB-SSC)

Purpose

FRAB-SSC considers how public sector annual reports can best reflect financial reporting matters concerning climate change and provide advice/guidance to FRAB on climate-related and sustainability reporting matters in the public sector.

Timing

Count: 3 times per year plus updates to FRAB

Length: 1-2 hours

Frequency: At each key stage of guidance development and before FRAB meetings

Objectives

Advise: advise on sustainability reporting strategy, evaluate proposals and review guidance

Monitor: developments by standard setters, in the private sector and internationally

Size

Small group (~8)

Agenda

Updates on sustainability reporting (government focus, private sector, standard setters)

Update on progress on sustainability reporting strategy

Other papers

Review of draft publications

Evaluate implementation progress

Composition

Formed of FRAB representative groups as volunteers

Michael Sunderland (HMT), relevant authority (RA)

Karen Sanderson (CIPFA), RA

Conrad Hall (Newham Council, CIPFA/LASAAC Chair), preparer and RA

James Osbourne (NAO) audit

Lynn Pamment (Jersey Audit Office Chair), independent/FRAB Chair

Ian Webber (MoD), preparer

Max Greenwood (HMT) as secretariat

Logistics

Virtual sessions

Products

Sustainability Reporting Update paper for FRAB

Tested guidance for each implementation phase

Best practice assessments

Sustainable Finance Network

Purpose

Create a permanent forum for GFF members with an expertise in sustainable finance to develop capability and best practice.

Size

Unlimited, with steering group of 4-6

Timing

To be decided. For illustration, they may put on 4 events per year.

Agenda

Introduction and update on TCFD strategy and implementation

Sustainability-related updated from across the finance community

Discuss publications on guidance, best practice and related news

Presentation from experts

Develop a training offer

Objectives

- Maintain and develop the Sustainable Finance Hub on OneFinance – bringing together guidance and best practice.
- Identify relevant L&D and ensure GFF Career Frameworks reflect the capabilities need for sustainability.
- Improve awareness of sustainable finance issues and best practice among the finance community.

Composition

Led by an FLG member.

Anyone with an interest in improving sustainability through finance practice.

We would target those with roles that are particularly important to sustainability: Sustainability report preparers; Business case appraisers (FBPs); Risk managers

Logistics

- Virtual meetings
- Events may be held on OneFinance and may also be part of GFF regional engagement and GFF conferences.
- Products hosted on OneFinance
- Forum for sharing issues on OneFinance

Products

- OneFinance Sustainable Finance Hub
- Career Frameworks or similar guidance on qualifications expectations.
- Events to raise awareness of sustainability issues, training and best practice.
- Blogs and news articles on OneFinance

Other stakeholders – Subject matter and policy experts, experienced and specialised organisations

Preparers

- Impacted preparers (large/longer term asset holders)
- Early adopters (regulated entities, listed entities, public corporations)
- Advocates and best practice preparers
- Private sector

Long term infrastructure : National Rail,
Large asset holders: MoD, GPA, OGP
Regulated: gov. pension funds, Pool Re, NEST, FRC
Voluntary early adopters: UKEF, Crown Estate, Bank of England, Ordinance Survey
PCs: BBC

TCFD and climate-related financial risks policy

- TCFD Joint Regulatory and Government Taskforce
- Policy advisors for private sector TCFD-adoption
- Other related policy experts

Gov. TCFD Taskforce: BEIS, BoE, PRA, Local Government Pension Schemes, DWP, FCA FRC, TPR
Policy: Green Finance (HMT, BEIS)
Other HMT teams: balance sheet review, Contingent Liabilities Central Capabilities, Fiscal Risk Team

Thematic policy specialists

- Thematic areas (governance, risk, metrics and targets)
- Modelling
- Governance and risk management

Risk Centre of Excellence
Metrics and targets: PMU/PVU, GGC (BEIS, Defra)
Modelling: GAD, Met Office
Governance and risk management: GIAA
Risk: Climate Change Risk Assessment (Defra)

Standard setters

- Professional bodies
- International standard setters
- Regulators
- Relevant authorities
- Other jurisdictions that are adopting TCFD principles in the PS

Professional bodies: ICAEW, ICAS, ACCA
International standard setters: ISSB, IPSASB,
Other standards organizations: TCFD, GRI, GHG Protocol
Regulators: BoE, FCA, FRC
RAs: NHS, devolved administrations, CIPFA/LASAC
Jurisdictions: New Zealand, Australia, Japan

Others

- Users
- Auditors
- Governance and stewardship
- Strategy (project assessment, regulation, legislation)
- Independent bodies

Users: Parliament (Environmental Audit Committee), related select committees, Environmental Audit Committee (EAC)
Auditors: NAO
Independent bodies: Climate Change Committee (CCC)

Risks – To the effectiveness and quality of PS annual reporting

Risk	Detail	Risk management strategy
Duplication of reported information – reporting effectiveness	Separate reporting structures across government may lead to duplicate reporting processes	Avoid – evaluate the TCFD recommendations, applying adequate care when interpreting/ adapting the TCFD framework. Identify other relevant reporting channels and communicate across teams.
Irrelevant information - reporting effectiveness	Reduced utility –ARAs should be 'simple and streamlined to meet the needs of users'. Adopting TCFD may lead to the inclusion of irrelevant information.	Avoid – evaluate the TCFD recommendations from full-PS perspective. Align underlying methodologies, where possible. Understand existing reporting processes to identify any overlapping requirements.
Applicability - appropriateness of framework	Certain PS structures for governance, risk management, strategic decisions, etc. are in very different from the private sector.	Control – evaluate the TCFD recommendations from full-PS perspective. Identify appropriate adaptations and interpretations. Allow for flexibility by RAs.
Completeness - appropriateness of framework	Simply addressing the reporting from a private sector perspective, could leave significant gaps, as a result of differences in focus and coverage. For example, applying financial risk analysis, in many cases, lacks relevance to the broader array of stakeholders to whom the government is accountable.	Accept – understand the focus and limitations of TCFD. Continue to applying existing sustainability and other relevant PS reporting frameworks. Monitor developments by sustainability standard setters, across government and internationally.