HM Treasury

Financial Reporting Advisory Board
Sustainability Reporting Update (FRAB-SSC 05)

Issue:	The paper sets out the Subcommittee's Recommendations from the June 2023 FRAB-SSC meeting. The paper also asks for the Board's approval of the publication of the Task Force on Climate-related Financial Disclosure (TCFD)-aligned disclosure application guidance for 2023-24 annual reports and accounts; and the Guidance on Financial Reporting Implications for Climate Change.
Impact on guidance:	The application guidance will impact the Sustainability Reporting Guidance (SRG) for 2023-24. We plan to publish both sets of guidance on GOV.UK in mid-July before summer parliamentary recess.
IAS/IFRS adaptation?	No IAS/IFRS adaptions are proposed in this paper.
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.
Interpretation for the public sector context?	No IAS/IFRS interpretations are proposed in this paper.
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., pollution, environmental assets, etc.
Recommendation:	The Board are invited to comment on the paper, and are asked to approve the publication of the application guidance, and the financial reporting guidance for use across the public sector.
Timing:	HM Treasury is asking that the Board approve the application guidance in this meeting, as it is relevant for 2023-24 annual reports and accounts. This will allow sufficient time for prompt publication to ensure that preparers can consider the guidance in a timely manner. The Board will receive further updates on the application guidance for future years of the phased implementation approach in due course.

Summary

1. This paper sets out the HM Treasury and FRAB-SSC are continuing to monitor external development in sustainability reporting (ISSB, IPSASB). The subcommittee continues to agree that implementing the TCFD recommendations is an appropriate first step, and that further sustainability reporting requirements may be needed depending on the outcomes of international standard-setting in this area.
2. Recommendations from the FRAB-SSC meeting requiring the Board's review and approval. The Board is asked to approve the Subcommittee's recommendations and specifically is asked to approve the TCFD-aligned disclosure application guidance for 2023-24 annual reports ('the application guidance') and the Financial Reporting Implications of Climate Change Guidance ('the financial reporting guidance') – refer to Appendix 1 (end of document) and Annex 4.
3. The associated papers for the FRAB-SSC 05 meeting have been included in this paper (in Annex 1); along with the agenda and Summary minutes for the Board's reference (both in Annex 2).

Background

1. This paper summarises the recommendations from the FRAB Sustainability Subcommittee (FRAB–SSC) meeting on 20 June 2023. This paper follows on from the last FRAB meeting and accompanying paper, FRAB 149 (13), in March 2023 where the Board was updated on:
    - The Subcommittee's recommendation that HM Treasury ensure that existing resources around the financial reporting consequences of climate change are publicised appropriately (to raise awareness across the public sector);
    - HM Treasury plans for TCFD-aligned reporting in 2023-24 annual reports for central government, focusing on the Governance recommended disclosures and an overview of progress on TCFD-aligned disclosure (addressed in the TCFD Compliance Statement); and
    - HM Treasury's planned timetable for developing TCFD-aligned disclosure application guidance for central government (and the wider public sector, where appropriate).
2. HM Treasury and FRAB-SSC are continuing to monitor external development in sustainability reporting (ISSB, IPSASB). The subcommittee continues to agree that implementing the TCFD recommendations is an appropriate first step, and that further sustainability reporting requirements may be needed depending on the outcomes of international standard-setting in this area.

Recommendations

Guidance on 'The Financial Reporting Implications of Climate Change'

3. HM Treasury have drafted a document providing guidance for the public sector on the financial reporting implications of climate change, in line with previous recommendations from FRAB and the FRAB-SSC. This document primarily directs users

to the existing educational material published by the IFRS Foundations and the FRC's climate change thematic review, and also considers other specific financial reporting implications of climate change, which are either unique to the public sector or where there are added layers of complexity in forming financial reporting judgements in the public sector.

4. This document draws from previous related FRAB discussions and papers (refer to FRAB 143 (07)), as well as two Technical Accounting Centre of Excellence (TA CoE) papers. The guidance is less directive than either the FRAB or TACoE materials, reflecting that they were written for the central government context specifically and also were not formally agreed by FRAB (and the FRAB paper represents the views of a single FRAB member).

5. At FRAB-SSC 05, the subcommittee supported HM Treasury and relevant authorities circulating and distributing the application guidance, subject to making drafting clarifications around the application of IAS 37 to the Climate Change Act 2008, and linking the guidance to public sector reporting manuals. This feedback has already been actioned in the guidance in Annex 4.

   Does the Board support the Subcommittee's recommendation to approve the 'Guidance on Financial Reporting Implications of Climate Change', and allow for relevant authorities to circulate the guidance accordingly?

TCFD-aligned disclosure application guidance for Phase 1

6. In line with FRAB's recommendation in March 2023, HM Treasury has drafted application guidance for 2023-24 annual reports and accounts which requires certain central government bodies to apply TCFD's recommended disclosures for Governance (on a comply or explain basis), and provide a TCFD Compliance Statement . In drafting the guidance, HMT has also considered BEIS's mandatory climate-related financial disclosure guidance[1] for companies and Limited Liability Partnerships (LLPs).

7. Please refer to Appendix 1 (end of document) for the draft application guidance for FRAB's review, comment and approval.

8. The phased implementation approach is set out in para. 1.18 of the application guidance. The application guidance will be additive with future phases incorporated into the existing guidance and published in updated versions:

   - Phase 2 (for 2024-25) on Risk Management and Metrics and Targets disclosures; and
   - Phase 3 (for 2025-26) on Strategy disclosures.

   Application guidance (including scope and intended audience)

9. HM Treasury only has the authority to direct central government bodies on material in annual reports and accounts. Relevant authorities set their own sustainability reporting requirements for annual reports. The application guidance mandates TCFD-aligned disclosure on a comply or explain basis for certain central government bodies (aligned with private sector thresholds) but directs other public sector bodies to

[1] www.gov.uk/government/publications/climate-related-financial-disclosures-for-companies-and-limited-liability-partnerships-llps

instructions/directions from their relevant authority. Please refer to the 'Scope' section of Chapter 1 of the application guidance, alongside the flowchart in Figure 2 (Appendix 1 – end of document).

10. Reporting entities that are not in scope of the application guidance can then make a decision whether to report voluntarily in full or in part. Voluntary reporting is not subject to the comply or explain disclosure basis.

11. The subcommittee was supportive of the approach for scoping and intended audience.

Does the Board support HM Treasury's approach to scope of the application guidance, including the application guidance being used by a wider public sector audience - either voluntarily or where specifically directed/instructed by their relevant authority?

Overall

12. The FRAB-SSC paper (Annex 1) includes detailed considerations and questions considered by the FRAB-SSC, with related summary minutes (Annex 2).

13. The subcommittee agreed to support the TCFD-aligned disclosure application guidance for Phase 1, subject to the following changes:

- the reporting boundary to be set on the national boundary, as the minimum requirement; and the international boundary, as best practice; and,
- Annex B, correcting the focus on Phase 2 to identify the qualitative characteristics of the Metrics and Targets pillar (and not just the qualitative characteristics).

These updates have been addressed in the application guidance (Appendix 1 - end of document).

Does the Board support the subcommittee's recommendation to approve the TCFD-aligned disclosure application guidance for Phase 1 for publication?

Annex 1
Meeting paper (FRAB-SSC 05)

Where sections of the subcommittee paper have been incorporated into the covering paper - they have not been duplicated here. Where paragraphs from this section (the FRAB-SSC paper) have been moved to covering FRAB paper – cross-referenced has been added accordingly.

Updates

HM Treasury, government and Parliament

Sustainability Reporting Guidance

14. HM Treasury plans to publish the Sustainability Reporting Guidance (SRG) in July 2023. The SRG has the following minor updates:
    - Removed detailed information on the TCFD framework previously included in the Voluntary Reporting, instead cross-referencing to the TCFD Application Guidance – to avoid duplication
    - Minor drafting changes to *Annex D Differences in reporting requirements between Greening Government Commitments (GGCs)/SRG*
15. HM Treasury is planning to undertake an SRG zero-based review in early 2024 (considering GGC25-30 and interaction with TCFD-alignment). This will be aimed at reducing the breadth of reporting requirements in annual reports (and increasing alignment across the public sector).

Non-financial Reporting Review

16. In May 2023, BEIS launched a call for evidence *Smarter Regulation Non-financial Reporting Review*[2]. The review covers non-financial reporting within the Strategic Report, the Directors Report and other areas in advance of wider developments in non-financial reporting (e.g., the International Sustainability Standards Board (ISSB)). The consultation closes on 16 August 2023.

Green Finance Strategy

17. On 27 March 2023, the government published a *Mobilising Green Investment*[3] paper updating their Green Finance Strategy. The paper includes:
    - further details on the Sustainable Disclosure Requirements (SDR) framework including linkage to TCFD and ISSB's sustainability standards.
    - plans for launching a formal assessment mechanism when the first two ISSB standards are published. The standards will provide the basis for future obligations within company law and Financial Conduct Authority (FCA) requirements for listed companies. This assessment will aim to ensure that the

[2] www.gov.uk/government/consultations/smarter-regulation-non-financial-reporting-review-call-for-evidence
[3] https://www.gov.uk/government/publications/green-finance-strategy

standards endorsed are appropriate for UK companies with two advisory committees:

  - one for matters of public policy - government led; and,
  - another with a technical focus and responsible for considering how the standards fit alongside existing reporting requirements for UK companies – to be supported by the Financial Reporting Council (FRC) and independently chaired.

- support for the Task Force on Nature-related Financial Disclosure (TNFD)[4] with the final TNFD framework due to be published in September 2023. The government intends to explore how to incorporate TNFD into company law.
- plans to launch a call for evidence for stakeholder views in Autumn 2023 to explore how it can support Scope 3 Greenhouse Gas (GHG) emissions reporting.
- plans to launch a consultation on the UK Green Taxonomy in Autumn 2023. Voluntary application is expected initially with an ambition to introduce mandatory company disclosure in the future. In July 2021, the government established the Green Technical Advisory Group (GTAG) to provide independent advice on market, regulatory and scientific considerations around what constitutes green.

Developing sustainability reporting frameworks

International Sustainability Standards Board

18. In May 2023, the ISSB launched a request for information for *Consultation on Agenda Priorities*[5] which seeks views on the direction/balance of activities, formal criteria for selecting/prioritising sustainability-related reporting matters, and which research projects to pursue. The consultation closes on 1 September 2023. The research projects, based on the informational needs of investors, are as follows:

    - Sustainability-related risks and opportunities associated with:
      - biodiversity, ecosystems and ecosystem services;
      - human capital; and
      - human rights.
    - Exploring how to integrate information in financial reporting beyond the requirements related to connected information in IFRS-S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS-S2 Climate-related Disclosures.

[4] TNFD is a global, market-led initiative that is in the process of developing a risk management and disclosure framework for organisations to report on nature-related risks. www.tnfd.global/

[5] www.ifrs.org/content/dam/ifrs/project/issb-consultation-on-agenda-priorities/issb-rfi-2023-1.pdf

19. In April 2023, the ISSB published an exposure draft on the *Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy*[6] which closes on 9 August 2023.

20. The ISSB is expected to publish IFRS-S1 and IFRS-S2 in June 2023.

Work plan and decisions

TCFD-aligned Disclosure Application Guidance – Phase 1

21. For 2023-24 ARAs, FRAB (and FRAB-SSC) agreed that, on a comply or explain basis, certain central government bodies should apply TCFD's recommended disclosures for Governance and provide an overview of progress on TCFD-aligned disclosure (addressed in the TCFD Compliance Statement). HM Treasury has drafted the TCFD-aligned Disclosure Application Guidance in line with these recommendations – refer to application guidance (Appendix 1 – end of document).

22. The application guidance is centred around TCFD's recommendations, recommended disclosures and supporting guidance. In drafting the guidance, HMT has also considered BEIS's mandatory climate-related financial disclosure guidance[7] for companies and Limited Liability Partnerships (LLPs). Annex 3 provides a brief overview of climate and emissions-related reporting for each relevant authority.

Approach to developing and issuing application guidance

23. The application guidance will be additive with Phase 2 (2024-25) and Phase 3 (2025-26) incorporated into the existing guidance and published in updated versions. The phased implementation approach is set out in para. 1.18 of the guidance. The planned timetable for developing application guidance is summarised in Annex 2 of FRAB 149 (13).

Intended audience and scope

24. The TCFD-aligned disclosure application guidance has been drafted so that it can be used across the public sector – rather than solely in central government. This is summarised in Figure 1 of the guidance.

25. This is a different approach to the SRG which is aimed predominantly at central government. Nevertheless, certain relevant authorities reference the SRG in their own guidance. The SRG does allow for wider public sector use, as detailed in the introductory section. *Refer to para. 9 for further details.*

26. Currently, sustainability reporting approaches and the quality of guidance varies significantly across the public sector, including:

- breadth and depth of guidance issued
- separate-vs-integrated reports
- underlying reporting requirements
- specific topics addressed
- entity level-vs-administration level

[6] www.ifrs.org/projects/work-plan/international-applicability-of-the-sasb-standards/ed-comments-sasb-applicability/#consultation
[7] www.gov.uk/government/publications/climate-related-financial-disclosures-for-companies-and-limited-liability-partnerships-llps

27. The approach to scope in the application guidance:

- supports high-quality climate-related financial risk reporting in entity annual reports and aligns with best practice;
- encourages consistency across the sector (and comparability with the private sector) without setting reporting requirements outside of HM Treasury's remit;
- allows relevant authorities the flexibility to direct preparers to the central guidance, adding any specific directions or instructions where desired.
- strongly encourages certain public sector bodies which fall into the TCFD's industrial groupings (banking, insurance, asset owners, asset managers, energy, transportation, materials and buildings, and agricultural food and forestry products) to follow the application guidance and TCFD's Supplementary Guidance for Certain Sectors[8] (not addressed further in the application guidance).
- encourages wider voluntary adoption across the sector in full or in part for those reporting entities that are not mandated to follow the guidance.

28. Early discussions from relevant authorities across the sector (via comments, at RAWG, and individual discussions) indicate there is support for this approach.

29. In terms of central government scoping, in line with previous FRAB-SSC discussions, the application guidance mandated TCFD-aligned disclosure in central government for:

- Ministerial and non-ministerial departments – to ensure full coverage of central government;
- Central government bodies with over 500 staff or operating income exceeding £500m (which broadly align with BEIS's private sector thresholds)

Does FRAB-SSC support the application guidance approach on the intended audience (wider public sector) and scope, namely:

- ***HM Treasury mandates disclosure for 1) ministerial and non-ministerial departments; 2) entities above certain size thresholds which are broadly consistent with the private sector;***
- ***Relevant authorities (and sponsoring departments) are able to direct and instruct group bodies to follow the application guidance;***
- ***Specific industrial groupings, identified by TCFD, are strongly encouraged to follow the application guidance and TCFD's supplementary industry-specific guidance;***
- ***Wider public sector bodies can choose to voluntarily follow the guidance in full or in part;***

Compliance statement

30. In March 2023, FRAB agreed that the Phase 1 guidance should *require departments to provide high-level commentary on Strategy, Risk Management and Metrics and Targets*. This was to *encourage engagement from those charged with governance* and

[8] www.fsb-tcfd.org/publications/#additional-supporting-guidance

indicate the next areas of focus. Refer to the recommendations in para. 8, as well as para. 26 of FRAB 149 (13)

31. The phased implementation approach is expected to vary across the sector, while also interacting with the 'comply or explain' basis for disclosure. Annual report users may struggle to determine the disclosure requirements at the time of reporting, and the extent the entity has complied with them.

32. To address the recommendation and the user informational needs, the application guidance mandates a TCFD Compliance Statement summarising which recommendations and recommended disclosures have been complied with, and which have not. For those that have not, the compliance statement must include a short summary of the reason for non-compliance and any plans for future disclosure. In addition, the compliance statement should state progress against the implementation timetable - in current and future years. This is relevant for in-scope reporting entities (but not voluntary reporting entities).

Does FRAB-SSC support the use of a TCFD Compliance Statement to summarise compliance; explain non-compliance; and where appropriate, set plans for supporting future disclosure?

Reporting boundaries

33. For central government, the guidance directs in-scope entities to report at a group level (e.g., main departments for their departmental group) – refer to para. 1.55 of the application guidance. This is consistent with the overall approach to annual reports and accounts in the FReM.

34. The TCFD guidance does not specifically address the reporting level or boundary for climate-related financial disclosures. For emission reporting specifically, the TCFD references the GHG Protocol which allows for either an equity share approach or control approach. The boundary approach in the application guidance is consistent with BEIS's guidance[6] for companies and LLPs in the private sector (Q2, page 7 and Q3, page 8).

Does FRAB-SSC support the reporting of TCFD-aligned disclosure for group-level reporting on international operations?

Assurance

35. With integrated reporting, TCFD-aligned disclosures are included in annual reports. This would constitute 'other information' in the annual report and is within the scope of the auditor's opinion. For central government, the NAO check for consistency between the narrative reporting, and financial statements, in line with ISA 720. TCFD-aligned disclosures would not be subject to an assurance opinion from the auditor, and the auditor will not perform any audit procedures on the underlying TCFD information.

Is FRAB-SSC content with the application guidance indicating that assurance on TCFD-aligned disclosure will be focused on consistency (in line with ISA 720); and not on the underlying TCFD-aligned disclosure?

Is FRAB-SSC content with Chapter 1 – Introduction, considering the structure, underlying guidance and level of detail?

Report location

36. The application guidance grants central government reporting entities flexibility in where to incorporate TCFD-aligned disclosure in their performance report, either in the performance overview/analysis, incorporated into the sustainability reporting section, or added as a new section within the performance report.

37. We expect preparers will have varying preferences on where to include TCFD-aligned disclosures in their annual reports depending on

- the stage and progress of implementation, as well as the maturity for disclosure;
- the desired focus and connectivity within the performance report either to:
    - the financial statement,
    - the entity's stewardship responsibilities within the sustainability report, sustainable development goals, etc.;
    - other performance reporting information (e.g., risks, objectives and priority outcomes);

38. Allowing reporting entities a degree of flexibility in the manner of presentation, to suits the needs of the annual report users, is likely to drive better reporting. Export Finance[9] and the Environment Agency[10] are both early adopters in central government, and chose to add a new section to their performance report.

Is FRAB-SSC supportive of granting reporting entities flexibility in where TCFD-aligned disclosure is included in the performance report?

Governance

39. The chapter introduces the Governance pillar and includes the specific recommendation and recommended disclosures (a) on Board Oversight and (b) on Management's Role, as well as the underlying TCFD guidance. The underlying guidance (shown in red) has public sector interpretations and adaptations (in italics) which are explained in Annex B of the application guidance (Appendix 1 – end of document).

40. In addition, further guidance was included to support effective disclosure, providing detail where there are public sector specific considerations, or where the FRC and FCA TCFD Review[11] identified common findings, which were relevant for the public sector.

41. In line with TCFD and BEIS guidance, the application guidance also identifies that disclosures related to Governance are material by nature. Parliament, as primary users,

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[9] www.gov.uk/government/publications/uk-export-finance-annual-report-and-accounts-2021-to-2022
[10] www.gov.uk/government/publications/environment-agency-annual-report-and-accounts-2021-to-2022
[11] FCA, published August 2022: www.fca.org.uk/publications/multi-firm-reviews/tcfd-aligned-disclosures-premium-listed-commercial-companies
FRC, published July 2022: www.frc.org.uk/getattachment/65fa8b6f-2bed-4a67-8471-ab91c9cd2e85/FRC-TCFD-disclosures-and-climate-in-the-financial-statements_July-2022.pdf

have shown increasing interest in climate change and related risks. Governance is fundamental to managing an organisation's climate-related risks. Consequently, all in-scope reporting entities must comply with the disclosure requirements for Phase 1 - or explain non-compliance. Voluntary reporters are not subject to the 'comply or explain' basis for disclosure.

Is FRAB-SSC content with Chapter 2 – Governance, considering the structure, underlying guidance and level of detail?

Metrics and Targets

42. The chapter introduces the Metrics and Targets pillar, and includes the specific recommendation and recommended disclosure (b) on Emissions Reporting, as well as the underlying TCFD guidance. The requirements related to Emissions Reporting are not being introduced in Phase 1.

43. The detail in the chapter was included to support linkage between existing emissions-related reporting processes, and the TCFD's Metrics and Targets recommended disclosure (b) on emissions reporting requirements.

Is FRAB-SSC content with Chapter 5 – Metrics and Targets, considering the structure, underlying guidance and level of detail?

TCFD-aligned Disclosure Application Guidance – further considerations

Public Sector Pension Funds

44. The TCFD Supplementary Guidance for the Financial Sector[12], specifically identifies pensions as being an industry which is likely to be impacted by climate-related financial risks– predominantly due to the climate-related considerations for managing a pension fund's assets and liabilities. However, private sector pension schemes are funded, while public sector schemes are predominantly unfunded - with a few exceptions (i.e., Local Government Pension Scheme (LGPS)[13]).

45. Unfunded public sector funds don't hold physical or investment assets and aren't subject to the same level and types of climate-related risks. Consequently, there's not an equivalent driver for disclosure in unfunded public sector pension schemes.

46. Currently, public sector pension schemes are not qualifying schemes under Section 3 of The Pension Scheme Act 2021, and therefore, are not subject to the FCA's climate-related financial disclosure requirements.

47. However, underlying parameters and actuarial assumptions used to value public sector pension schemes may be impacted by climate change. For example, the SCAPE discount rate parameters, which are used to value public sector pension schemes, include variables which reflect future risks to government income, which in turn may

[12] https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf
[13] In September 2022, LGPS consulted on TCFD-aligned disclosure: www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks

be impacted by climate change. HM Treasury is exploring this and will report to FRAB-SSC at the next meeting, if necessary.

Guidance on the Financial Reporting Implications of Climate Change

48. In March 2023, subcommittee members restated the need for public sector-wide guidance on the financial reporting implications of climate change – aligning with FRAB-SSC's remit.

49. HM Treasury has drafted a short piece of guidance on the *Financial Reporting Implications of Climate Change* – please refer to Annex 4. *Further details have been moved to the Recommendations section at the start of this paper – refer to para. 4.*

50. HM Treasury plans to publish the guidance on OneFinance, the Government Finance Function's (GFF's) digital platform, available to central government bodies. HM Treasury also proposes that the guidance is circulated by relevant authorities across the public sector.

Is FRAB-SSC content with the Financial Reporting for Climate Change guidance and the proposed distribution/circulation method?

Annex 2

Agenda and minutes for FRAB-SSC 05

Time: 1pm to 2pm on Tuesday 20 June 2023
Location: Virtual via MS Teams

Agenda

Attendees

Name	Initials	Position	FRAB Role
James Osbourne (Chair)	JO	National Audit Office	Auditor representative
Sarah Geisman	SG	HM Treasury (HMT)	Relevant authority
Conrad Hall	CH	Newham Council	CIPFA/LASAAC Chair
Karen Sanderson	KS	CIPFA	Relevant authority
Mike Sunderland	MS	DfE	Preparer representative
Iain Murray	IM	CIPFA	Relevant authority
Lynn Pamment	LP	Jersey Audit Office	FRAB Chair
Ian Webber	IW	DESNZ	Preparer representative
Max Greenwood (Secretariat)	MG	HMT	-

Timetable

Time (pm)	Agenda item	Detail
1.00 to 1.05	Welcome and introduction	Introduction
1.05 to 1.45	TCFD Application Guidance - Phase 1	Max to provide a brief overview on TCFD-alignment across the public sector, including updated views from relevant authorities. Open up to members to discuss the draft TCFD-aligned disclosure Application Guidance for Phase 1, as well as discuss wider public sector considerations. Discuss and decide on whether FRAB-SSC supports HM Treasury's approach with respect to: • Intended audience and scoping; • TCFD Compliance Statement • Group-vs-standalone reporting • Location for reporting • Assurance • Governance • Metrics and Targets
1.45 to 1.55	Financial Reporting for Climate Change Guidance	Paper taken as read (with drafting comments addressed separately). FRAB-SSC discuss any substantive comments on the guidance.
1.55 to 2.00	Sustainability reporting updates and any other business	Where time permits, discuss the wider sustainability reporting updates, topics for the next meeting, future membership, and AOB

Actions

	Item	Details	Progress
	FRAB-SSC 04 on 1 March 2023		
1	Sustainability Reporting Expert	HMT to identify potential candidates with sustainability reporting expertise and consider updates to update the FRAB-SSC Terms of Reference.	Open – ongoing work to identify potential candidates (e.g., UKEF early adopters, TCFD Technical Working Group) with proposed updates to Terms of Reference to be brought to next meeting.
2	Communication with Relevant Authorities	HMT to set up call with CIPFA on local government sustainability reporting developments and discuss the TCFD implementation plan in more detail.	Closed – discussions at the Relevant Authority Working Group (RAWG) and via direct confirmation from reach RA on the application guidance.
3	Develop guidance on financial reporting for climate change	HMT to develop guidance on Financial Reporting for Climate Change. The guidance should be high level and mainly signpost to existing material with the aim of raising awareness across the public sector.	Closed – delivered guidance for review, comment and approval.
4	Draft TCFD Application Guidance	HMT to draft TCFD Application Guidance for Phase 1 (2023-24 reporting requirements) for June 2023. HMT to draft TCFD Application Guidance for Phase 2 for November 2023. HMT expected to report	Closed – delivered guidance for review, comment and approval.
	FRAB-SSC 05 on 20 June 2023		
5	TCFD-aligned disclosure application guidance	HMT to update draft application guidance: • setting the national reporting boundary as the requirement, and international boundary as best practice • addressing the minor correction to Annex B, specifically the Metrics and Targets pillar.	
6	Financial reporting implications for climate change	HMT to update draft financial reporting guidance: • adding further detail on the general statement on IAS 37 • adding linkage to government financial reporting manuals.	

Publication procedures and details

1. Based on time constraints, the summary minutes for the FRAB-SSC meeting have not been circulated to the Subcommittee for comment in advance of the FRAB meeting.
2. These minutes should be read in conjunction with the supporting paper for FRAB-SSC 05 – refer to Annex 1.

Summary minutes

Introduction

3. James Osbourne adopted the role of Chair for the session (rotating basis). The Chair welcomed members and introduced the session.

   Scoping and intended audience (and reporting boundary)

   Question: Does FRAB-SSC support the application guidance approach on the intended audience (wider public sector) and scope, namely:

   - **HM Treasury mandates disclosure for 1) ministerial and non-ministerial departments; 2) entities above certain size thresholds which are broadly consistent with the private sector;**
   - **Relevant authorities (and sponsoring departments) are able to direct and instruct group bodies to follow the application guidance;**
   - **Specific industrial groupings, identified by TCFD, are strongly encouraged to follow the application guidance and TCFD's supplementary industry-specific guidance;**
   - **Wider public sector bodies can choose to voluntarily follow the guidance in full or in part;**

   Answer: The subcommittee were supportive of scope and intended audience

4. The Secretariat introduced the application guidance, which mandates TCFD-aligned disclosure on a comply or explain basis for certain central government bodies, while allowing for wider public sector bodies to adopt voluntarily. Relevant authorities may direct or instruct preparers may also direct preparers to adopt.

5. The central government thresholds (500 FTE, £500m operating income) align with the private sector. In addition, certain specific industries heavily impacted by climate change, and identified by the TCFD (refer to paper/application guidance), are directed to strongly consider applying the application guidance and TCFD Supplementary Guidance.

6. A member confirmed they were content with the approach. However, while accepting TCFD-aligned reporting remains an appropriate first step, asked how the developing guidance would reflect the fast paced changes in the external environment. Implementing sustainability reporting in a dynamic environment requires a level of caution to not go too far ahead or fall too far behind. The member also asked for HM Treasury views in addressing impact materiality (e.g., under GRI). The members noted IPSASB's recent announcement on public sector climate-related disclosure standards[14].

7. HMT explained that the other annual report preparers had raised similar questions with respect to impact materiality and on the intended audience. HMT noted the focus of TCFD-aligned disclosure is mainly driven by the linkage to financial statements, and that the intended audience remains aligned with the users of the annual reports and accounts. IPSASB's frameworks draw on wider frameworks (e.g., UN Sustainability

[14] www.ipsasb.org/news-events/2023-06/ipsasb-begins-development-climate-related-disclosures-standard-public-sector

Development Goals). The developing TCFD-aligned disclosure application guidance will be cognisant of wider developments, however, will remain focused on the TCFD recommendations and connectivity to the financial statements – not straying too far into other developing areas until there is more certainty on the outcome of these developments.

8. Both HMT and other members agreed that moving forward with implementing the TCFD recommendation remains appropriate (based on ongoing external developments).

9. A member expressed the need to remind stakeholders (via papers, discussions, and guidance) that the approach does not permanently tie the UK public sector to only following the TCFD framework. This remains an appropriate first step, while the subcommittee monitors wider developments. Another member agreed that scene setting and contextualising in the context of the broader reporting landscape, would likely allow the guidance to land better.

10. The member asked whether HMT has specifically chosen operating income as the threshold, or whether this was driven solely in aligning with the private sector. Applying a threshold linked to expenditure may be more appropriate, for example, where ALBs are primarily funded via grant-in-aid. This choice is likely to reduce the in-scope population, however, the member questioned whether this was a conscious decision. HMT said this choice was mainly chosen for alignment, and to avoid further complex judgements in introducing an alternative threshold.

11. Another member agreed with the previous point, and questioned whether the selected thresholds were sufficiently specific to the public sector. The member noted that the 500 FTE (rather than £500m operating income) seemed more likely to be the limiting factor for public sector and central government bodies.

12. A member raised that there may be public bodies with relatively limited operations but large amounts of cash passing through which will be captured by the £500m operating income threshold. Another member agreed, and commented that there are likely to be other examples (e.g., considering housing benefits), but stated that users may still be interested in TCFD disclosures in this case, especially when these bodies are influencing downstream activity.

13. Another member raised whether there’s an option to consider this from a group consolidation perspective. If requirements apply at a group level, to the extent information is being captured by the group’s accounts; is there scope to allow a level of discretion in application, around managing and reporting information across the group.

14. Another member noted that while they were supportive of the principles and thresholds of the proposals, unintended consequences could occur. An exceptions process may allow for flexibility in identifying and addressing these unintended consequences.

15. A member asked how many bodies would be scoped in based on the proposed thresholds in the guidance. For trading funds, for example, the FTE would be much more likely to have a scoping impact than operating income. HMT later confirmed

that around 46 central government bodies would be captured under the FTE threshold.

16. Another member supported the proposed thresholds, agreeing that the 500 FTE would likely be the predominant driver for scoping, but also agreed with other member's concerns over unintended consequences from the operating income threshold. However, this member supported consistency with the private sector generally.

17. The member queried the application guidance's focus on group reporting - as opposed to entity-level reporting. They were unsure whether in central government, departments are coordinating the response to climate-related risks and opportunities at a group level, or whether this is being left to individual entities. Furthermore, across the wider public sector there may be less centralised control over climate policy (e.g., consolidation across an NHS Foundation Trust).

18. Another member agreed that a focus on the reporting entity rather than the group seemed more appropriate in the context of setting thresholds for scoping, explaining consistency with the private sector should drive requirements unless there's a specific public sector reason to diverge. The member accepted the comment for applying an expenditure based threshold instead of operating income. They also noted that private sector entities may similarly distribute significant cash, so the issue identified here could also be applicable to the private sector (referring to the public sector examples identified earlier).

19. Another member explained that from the perspective of an annual report user, group-level disclosures are likely to be more useful than entity-level disclosures – otherwise, the user would have to trawl through multiple reports to obtain information.

20. HMT explained that both the reporting and risk management processes in central government provide a mixed picture, with certain responsibilities residing at a group level/centrally controlled (e.g., Greening Government Commitments setting metrics and targets on their group), while other policies are setup and managed by the individual entity. For example, where an entity is significantly impacted by or can have an impact on climate change - the Climate Change Risk Assessment (CCRA) will directly communicate with that entity.

21. The Chair summarised that, although there were a number of detailed comments, there was agreement for the overall approach to scoping in the application guidance and there was no consensus around any alternative approach to scoping.

<u>Compliance Statement</u>

Question: Does FRAB-SSC support the use of a TCFD Compliance Statement to summarise compliance; explain non-compliance; and where appropriate, set plans for supporting future disclosure?

Answer: The subcommittee supports the use of a TCFD Compliance Statement.

22. HMT introduced the paper and explained that the Compliance Statement provided an overview of disclosure and implementation progress, explained non-compliance, and where appropriate required explanations of future plans for disclosure. The statement was intended to engage those charged with governance.

23. A member voiced support for using a compliance statements to encourage engagement and provide clarity in the complex implementation timetable and landscape. However, the member noted there was ambiguity in applying Metrics and Targets recommended disclosure (b) in Phase 1. HMT clarified that this requirement had been included to provide a linkage between the recommended disclosure and existing emissions reporting. For central government, the focus is on referencing across the two report sections - with SRG requirements aligning with current TCFD-aligned disclosure requirements. The member accepted the response and noted the Zero Based Review of the SRG planned for March 2024 to consider the alignment between the frameworks.

24. Another member supported the use of a compliance statement and endorsed the useful examples provided in the guidance on different phases of disclosure.

Reporting boundaries

Question: Does FRAB-SSC support the reporting of TCFD-aligned disclosure for group-level reporting on international operations?

Answer: The subcommittee supports group-level reporting generally; however, the subcommittee did not support mandatory reporting on international operations. Instead, the subcommittee requested that minimum requirements be set at a national level in the Phase 1 application guidance, and HM Treasury include international operations as 'best practice' and as the expectation for the future phases of TCFD implementation, supplying sufficient detail for those wanting to report.

25. HMT noted the previous discussions on group versus entity level reporting. The Chair summarised that department-level annual report users would likely expect group information, while also noting that the framework's focus on entity-level reporting.

26. The member queried the intention of using global instead of national operations. HMT explained that existing climate risk and sustainability reporting frameworks (e.g., GGCs and CCRA) tend to focus on UK-based operations. However, a wider international boundary is being considered by both policy teams and by reporting entities. Climate risks are not constrained by borders, and both the TCFD and other developing frameworks (e.g., ISSB) do not set these boundaries. Additionally, relevant public sector accounting frameworks do not rely on national boundaries when drawing accounting boundaries.

27. The member explained that if the bar for compliance is unrealistic (in terms of including international operations), then non-compliance becomes a generally accepted norm or receives undue attention. The member expressed a preference for setting the minimum requirement at national boundaries and instead having an ambition to expand to cover international operations in the future.

28. Another member noted that setting more stretching requirements, would likely reduce the level of compliance, and influence engagement. They also noted that the implications and practicalities of the international element are unclear. If it is appropriate to extend existing reporting boundaries, then offering optionality will likely encourage better compliance overall.

29. Another member noted that national reporting would be easier, and that the international element only impacts a small population (e.g., MOD overseas bases, FCDO's overseas buildings). Another member asked how the requirement would interact with the comply or explain disclosure basis. The application guidance requirements should align with TCFD's principles as far as possible. HMT explained that early discussions with impacted departments, who are considering early adoption, had already started to consider the international element.

30. Another member supported the international element where there is a significant impact, however, noted most reporting entities will apply the lowest level of disclosure.

31. Another member noted that the international element may be less relevant but also less onerous for Phase 1, however, may become more relevant/onerous in future phases. HMT agreed, noting that Metrics and Targets recommended disclosure (b) for Phase 1 already directs reporting entities to align with existing frameworks. The inclusion at this stage was to set expectations. HMT expanded that the requirement would be more challenging for qualitative disclosures – impacting data collection across more locations.

32. Another member argued that there is no significant public sector specific reason to diverge from the TCFD guidance. Consequently, they support either a comply or explain basis for disclosure, or a 'building up approach' where international reporting isn't currently required, however, is planned for the future. Where international elements are planned, the application guidance should set out the expectations, allowing preparers that hold the information to report, or others to know with clarity what they will need to do in the future. Another member explained that this could be included within the compliance statement directly.

33. The Chair summarised that the subcommittee did not support mandatory reporting on international operations, and instead the minimum requirements should be set at a national level in Phase 1 of the application guidance. HMT should include international operations as 'best practice' and as the expectation for the future phases of TCFD implementation, supplying sufficient detail for those wanting to report.

<u>Assurance</u>

Question: Is FRAB-SSC content with the application guidance indicating that assurance on TCFD-aligned disclosure will be focused on consistency (in line with ISA 720); and not on the underlying TCFD-aligned disclosure?

Answer: Yes, the subcommittee is content with the assurance arrangements proposed in the guidance.

34. The Chair opened for comments on assurance. One member queried whether the new auditing standards would have an impact here. Another queried at what point there would be assurance arrangements.

35. A member agreed that the new auditing standards would add clarity, however, noted that the existing standards are able to support related assurance. There is a separate decision to be taken, likely by another group, on the extent to which assurance is encouraged, or mandated, and the associated timetable.

36. Another member noted that in the corporate sector, assurance arrangements are commonly an opinion within an opinion. The arrangements don't tend to follow International Standards on Auditing (ISAs), instead they use reasonable assurance engagements. The member questioned whether reporting would ever reach a true and fair opinion or whether this will be a limited form of assurance may want to give thought to this. Another member noted while there have been developments in the private sector, there is still considerable uncertainty.

The Chair summarised the discussion, noting that the subcommittee was content with the assurance detail included in the application guidance.<u>Report location</u>

Question: Is FRAB-SSC supportive of granting reporting entities flexibility in where TCFD-aligned disclosure is included in the performance report?

Answer: The subcommittee is supportive of flexibility in the location of disclosure.

37. HMT explained that application guidance offers reporting entities flexibility in where to incorporate TCFD-aligned disclosure in their performance report, either in the performance overview/analysis, incorporated into the sustainability reporting section, or added as a new section within the performance report. Reporting entities will have different preferences on where to include information. The subcommittee was supportive of flexibility in reporting location.

<u>Overview, Governance and Metrics and Targets (and any other comments)</u>

38. A member queried the timetable included in Annex B of the application guidance – specifically the ordering of strategy. Furthermore, they noted that Metrics and Targets were designated qualitative disclosures. HMT explained that Risk Management and Metrics and Targets would be addressed in Phase 2, while Strategy would be addressed in Phase 3 Following the basis that disclosures with increasing difficulty would be tackled later. **HMT agreed to correct the reference to qualitative in the Metrics and Targets pillar**.

Question: Is FRAB-SSC content with the application guidance overall?

Answer: The subcommittee is supportive of application guidance setting the national reporting boundary as the requirement, and international boundary as best practice as well as addressing the minor correction to Annex B, specifically the Metrics and Targets pillar.

39. One member questioned whether the emission reporting in the application guidance should reference external frameworks. HMT explained their intention to address more detailed requirements on emissions reporting in Phase 2, drawing from the SRG, ensuring applicability across the public sector, and cross-referencing to key frameworks. Related recommended disclosures in Phase 1 were only intended to address alignment with the SRG.

40. Members were content with the application guidance, and the general direction.

<u>Financial Reporting Impacts of Climate Change Guidance</u>

Question: Is FRAB-SSC content with the Financial Reporting for Climate Change guidance and the proposed distribution/circulation method?

Answer: The subcommittee is supportive of HM Treasury and relevant authorities circulating and distributing the application guidance, after clarifying the discussion on IAS 37 and linking to other financial reporting manuals.

41. HMT introduced the financial reporting impacts of climate change guidance, explaining that it primarily directs users to the IFRS Foundation's existing educational material, the FRC's climate change thematic review, and also considers other specific financial reporting implications of climate change, which are either unique to the public sector or where there are added layers of complexity in forming financial reporting judgements. The guidance intends to be less directive and it will be the responsibility of relevant authorities to decide how best to circulate the guidance.

42. A member supported the guidance but asked whether the document should be iterated and evolve over time to align with changing regulations and standards. HMT proposed using planned TCFD annual report reviews to check financial reporting disclosures for climate change and identify best practice and confirmed that the guidance may need to be updated if there are changes in the underlying IFRS standards or relevant public sector accounting guidance. Another member was supportive of using a high bar in determining when to issue updated guidance.

43. A member voiced support for linking the guidance to the FReM, and ensuring the guidance is cognisant of changes to financial reporting requirements. HMT clarified that the guidance was drafted for the wider public sector and would reference other public sector financial reporting manuals (as well as the FReM).

44. Another member raised concerns over the general statement in the draft guidance that *Net zero commitments made by the UK, national governments and public sector bodies could give rise to provisions or contingent liabilities.* This seems unlikely unless the entity has made very substantive commitments in this area (e.g., committed to a course of action which they are unable to withdraw from). The sentence either needs to be removed or more detail is needed. Another member agreed. HMT agreed to provide detail on the statement, and caveat the guidance appropriately.

45. Another member noted that the TACoE article had provided guidance on the financial reporting considerations for the Climate Change Act with respect to provisions - noting that the guidance tried to emphasise that the bar is quite high (e.g., need to have committed).

46. The Chair summarised that subject to clarifications on the general statement with respect to IAS 37, and the linkage to financial reporting manuals across the sector, the subcommittee was content with the guidance.

Annex 3

Existing public sector climate and emissions-related reporting

1. Climate and sustainability reporting policy is a devolved matter. The associated legislation and climate-risk reporting processes were summarised in FRAB 147 (20) para. 28.
2. The table below summarises the current emissions-related reporting across the public sector.

Central government	HM Treasury publishes the SRG on an annual basis. Currently, the requirements align closely with the GGCs and related guidance published by Defra. BEIS set the central emissions targets for government.
Wales	The Welsh Public Sector Net Zero Reporting Guide provides an extensive set of guidelines for measuring and reporting emissions. The guidance educates the reader on emissions-related reporting, before tackling the reporting and progressing onto more complex topics. The guidance allows for progress to be reported in the annual report or in a separate document.
Scotland	The Scottish Government collects emissions data centrally and publishes an annual Climate Change Plan[15] which analysis progress against targets. The sustainability reporting approach
Northern Ireland	In 2022, the Department of Agriculture, Environment and Rural Affairs (DAERA) issued guidance on sustainability reporting. The guidance provides an overview of relevant legislation, direction on implementing the related requirements, and examples of types of information and targets to report (drawn from the SRG). Individual entities are responsible for their own reporting.
NHS	Sustainability-related reporting requirements in the GAM are high-level – refer to 3.39 in GAM22-23. Greener NHS[16] has published a Net Zero Plan and provided additional requirements. Greener NHS collects significant sustainability-related data via their online portal. The data collected is focused on key drivers for emission (risks basis). Greener NHS Net Zero does refer to including indicators in the performance reporting of Trust and other NHS bodies.
Local Government	CIPFA LASAAC has published sustainability reporting related articles to support local government preparers. The CIPFA LASAAC is using other levers to support local government on emissions and climate-related reporting.

[15] www.gov.scot/publications/climate-change-plan-monitoring-reports-2021-compendium/
[16] www.england.nhs.uk/greenernhs/

Annex 4

HM Treasury

Financial reporting implications of climate change

This paper provides a brief overview of the potential financial reporting impacts of climate change and directs public sector annual report preparers to existing educational material published by the IFRS Foundation and others. This paper does not address the non-financial reporting requirements on climate change, which are being considered separately by FRAB, HM Treasury and other relevant authorities. Public sector bodies must consider this guidance in conjunction with their relevant financial reporting manual (e.g., Government Financial Reporting Manual (FReM), the CIPFA LASAAC Code (the Code), or the DHSC Global Accounting Manual (the GAM)).

IFRS Foundation

The IFRS Standards are risk-agnostic, instead setting out principles that can be applied to any thematic or financial risk area. Preparers should consider climate-related matters in applying IFRS Standards when the related effect is material in the context of the financial statements taken as a whole.

In November 2020, the IFRS Foundation published the Effects of climate-related matters on financial statements. The educational material lays out the most common financial reporting topics impacted by climate change. Of the standards identified by IFRS in the educational guidance, the following are likely to be most pertinent to public sector entities:

- Changes in residual values and expected useful life under *IAS 16 Property Plant and Equipment* and *IAS 38 Intangible Assets*.
- *IAS 36 Impairment of Assets*
- *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*
- *IFRS 7 Financial Instruments*
- *IFRS 13 Fair Value Measurement*
- *IFRS 17 Insurance Contracts* (planned implementation in 2025-26)

The International Accounting Standards Board (IASB) has announced a research project to evaluate the effectiveness of the educational material in supporting preparers to reflect the effects of climate-related risks in the financial statements, while considering what further actions the IASB could take to further improve information on this matter[17]. In addition, the International Sustainability Standards Board (ISSB) is considering a joint project with the IASB to assess the connectivity between financial reporting and sustainability standards.

[17] www.ifrs.org/news-and-events/news/2023/03/connectivity-in-practice-the-iasbs-new-project-on-climate-related-risks-in-the-financial-statements/

Other relevant guidance

In November 2020, the Financial Reporting Council (FRC) published a thematic review of climate-related considerations for companies in the UK private sector. Most findings and FRC expectations in the review aimed at companies could similarly be relevant to public sector bodies:

- Climate change in the financial statements - it was generally unclear how the forward-looking assumptions and judgements applied in the preparation of the financial statements were consistent with the narrative discussion of climate change in the strategic report.
- Consistency between narrative reporting and financial statement disclosures - whether the annual report and accounts, taken as a whole, presents a consistent message on the most significant risks presented by climate change and includes all information that may be material for decision-making.
- Materiality - reflect on the information about climate change which is material to users for both narrative reporting and financial statement disclosure. The FRC do not encourage a checklist approach as this may lead to both clutter and omission of key information. Information may be required by IAS 1 where it is relevant to an understanding of the financial statements, even where it is not specified in a standard.
- Useful lives of assets - it was unclear whether climate change uncertainties had been taken into account when determining useful economic lives of assets which appear to be exposed to these risks.

Further financial reporting considerations for public sector bodies

Implications of the Climate Change Act 2008

FRAB has previously discussed the implications of the Climate Change Act 2008[18], which sets legally binding targets on government to reduce greenhouse gas emissions to net zero by 2050, on government financial reporting[19] and concluded the Act is a relevant consideration in principle. The devolved administrations have legislated their own versions of the Climate Change Act. The financial reporting impact of the Act (or its devolved equivalents) will vary depending on the specific public sector body being considered. In addition, individual reporting entities may have set their own net zero commitments - or have commitments (and plans) placed on them by a separate authority. This adds an additional layer of complexity for public sector financial reporting. The remainder of this section lays out specific financial reporting areas which may be affected.

The Act gives rise to a number of different direct and indirect financial reporting implications that should be considered and are briefly discussed below. These implications are generally not unique to the public sector – however, there is an added layer of complexity for public sector bodies who often have different structures for control, authority and decision-making.

IAS 37 issues

Para. 10 of *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* defines a liability as *a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits*. IAS 37 differentiates legal obligations (arising from the law) from constructive obligations (arising from the entity's actions) and says either obligation can create an obligating event where the entity has no realistic alternative to settling the obligation.

[18] www.legislation.gov.uk/ukpga/2008/27/contents
[19] March 2021, FRAB 143 (07) Climate Change Act implications for government financial reporting

Net zero commitments made by the UK, national governments and public sector bodies could give rise to provisions or contingent liabilities in some circumstances. Reporting entities should consider factors including whether they have made sufficiently specific commitments and whether they are able to withdraw from these commitments; and to what extent these commitments relate to past events rather than future events.

<u>Carbon offsets</u>

Where a public sector body has given a clear commitment to offset carbon emissions, a reasonable expectation may have been made (para 14 of IAS 37). Consequently, a provision for past emissions (but not future emissions) can be created even if there is no legal liability. This will follow the normal estimation rules for provisions and should be regularly reviewed.

<u>Restructuring costs</u>

Para 14 of IAS 37 defines restructuring as *fundamental reorganisations that have a material effect on the nature and focus of the entity's operations*. Restructuring could be linked to the transition to net zero.

Restructuring is applicable where there is a 'one off' cost in transitioning to a different operating model - as opposed to an anticipation of future operating expenses associated with moving to net zero.

Para. 72 of IAS 37 notes that a constructive obligation to restructure arises only when, first, an entity has a detailed formal plan for the restructuring and, second, when it has raised a valid expectation in those affected that it will carry out the restructuring.

Carbon plans and budgets may constitute a detailed formal plan. Where public sector bodies are carrying out a 'one-off' transition to a different operating model, they need to determine whether they have laid out a detailed formal plan for net zero and consider whether a valid expectation has been raised.

<u>*IAS 16 issues*</u>

Net zero commitments and related decarbonisation plans can also lead to changes in useful economic lives and asset impairment. If a reporting entity takes a positive action towards the plan, such as replacing existing assets that may have a useful life beyond the expected replacement date (e.g., replacing car fleet with low emissions vehicles), then a reassessment of their useful life and potential impairment should be considered in line with para. 50 of *IAS 16 Property, Plant and Equipment*.

Note - the approved final version of the application guidance has been published on GOV.UK. Please refer to this updated version when using the guidance: www.gov.uk/government/publications/tcfd-aligned-disclosure-application-guidance

HM Treasury

Appendix 1

TCFD-aligned disclosure

Application guidance

Phase 1

July 2023

Note - the approved final version of the application guidance has been published on GOV.UK. Please refer to this updated version when using the guidance: www.gov.uk/government/publications/tcfd-aligned-disclosure-application-guidance

HM Treasury

TCFD-aligned disclosure

Application guidance

Phase 1

July 2023

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This publication is available at: www.gov.uk/official-documents.

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gov.uk

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Contents

Foreword		**6**
	Year of applicability	6
	Scope	6
	Summary requirements	6
Chapter 1	**Introduction**	**7**
	Overview	7
	Application	9
	Scope	10
	Principles	13
	Focus	16
Chapter 2	**Governance**	**20**
	Overview	20
	Recommended disclosures	21
Chapter 3	**Strategy**	**24**
Chapter 4	**Risk Management**	**25**
Chapter 5	**Metrics and Targets**	**26**
	Introduction	26
	Overview	26
	Recommended disclosures	27
Annex A	**Interpretations and adaptations**	**29**
Annex B	**Phased implementation approach**	**31**
Annex C	**List of abbreviations**	**33**

Foreword

This document sets out the principles and standards underpinning the application of the Task Force on Climate-related Financial Disclosure (TCFD) recommendations in central government, and where relevant, the wider public sector. This disclosure framework is a key part of the UK central government performance reporting framework, providing improved transparency and public accountability.

Year of applicability

This application guidance for TCFD-aligned disclosure applies to reporting periods from 2023-24. A three-year phased implementation approach to TCFD recommendations will be applied in central government – refer to Annex B for more details.

Scope

This guidance applies to all departments (ministerial and non-ministerial), as well as some central government and wider public sector bodies that meet certain criteria, or where they have been directed/instructed to follow the guidance by their respective relevant authority or parent department. Other central government and public sector bodies may voluntarily choose to follow this guidance in full or in part. Refer to Chapter 1 for more details on the scope of this guidance.

Summary requirements

Phase 1 of this application guidance sets out the disclosure requirements for the first year of implementation. In-scope reporting entities must include:

- a TCFD Compliance Statement – summarising the extent this guidance has been complied with, the reasons for non-compliance, and providing an overview of plans for future reporting.
- the TCFD Governance recommended disclosures:

  (a) a description of the board's oversight of climate-related issues.

  (b) a description of management's role in assessing and managing climate-related issues.
- where available as part of an entity's existing reporting processes, the TCFD Metrics and Targets recommended disclosure (adapted):

  (b) Scope 1, Scope 2, and, Scope 3 - business travel only greenhouse gas (GHG) emissions. This aligns with existing requirements in the Sustainability Reporting Guidance (SRG).

Chapter 1
Introduction

1.1 Climate change is a significant crisis facing the global community, and one the UK will need to continue to confront head-on amid warmer winters and hotter summers, plus more variable rainfall and more severe storms. Sea levels are rising by 3 millimetres a year around the UK coastline, increasing the risk to buildings and infrastructure close to the shoreline. Extreme weather – flooding, storms, heatwaves – already cause significant disruption in the UK every year, so we should not underestimate the challenges that a more extreme climate will have on our lives, the economy and our environment.

1.2 This chapter provides an overview of the Task Force on Climate-related Financial Disclosures recommendations, and explains how public sector bodies should use this guidance, as well as why TCFD-aligned disclosure is being pursued in UK public sector annual reports and accounts (herein referred to as 'annual reports'). An overview of the TCFD framework has been included in Figure 1 at the end of this chapter.

Overview

1.3 The government recognises the recommendations of the Financial Stability Board's (FSB) TCFD as one of the most effective frameworks for organisations to analyse, understand and ultimately disclose climate-related financial information against.

1.4 The TCFD's recommendations set out how organisations across sectors and geographies can assess and disclose their Governance, Strategy, Risk Management and Metrics and Targets related to climate change.

1.5 TCFD's aim is for these disclosures to promote the management of climate-related financial risk and opportunities across the economy and financial system.

1.6 While the TCFD recommendations were designed for the private sector, with the aim of providing markets with clear, comprehensive, high-quality climate-related information for financial decision-making; the public sector similarly requires climate-related information for decision-making and accountability to annual report users. The TCFD principles are being adopted more broadly across different sectors and by international standard setters.

Note - the approved final version of the application guidance has been published on GOV.UK. Please refer to this updated version when using the guidance: www.gov.uk/government/publications/tcfd-aligned-disclosure-application-guidance

Background

1.7 In 2015, the FSB established the TCFD to develop recommendations for more effective climate-related disclosures to promote more informed decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets and exposures to climate-related risks.

1.8 The Task Force published their recommendations in 2017[1], which proposed:

- four widely adoptable recommendations across four thematic areas (Governance, Strategy, Risk Management, and Metrics and Targets);
- eleven recommended disclosures structured around the thematic areas, representing the core elements of the organisation's operations. The disclosures are intended to interlink and inform each other;
- general and sector-specific guidance for applying the framework
- seven key principles for effective disclosure:
    - relevant
    - specific and complete
    - clear, balanced, and understandable
    - consistent over time
    - comparable across the sector, industry, or portfolio
    - reliable, verifiable, and objective
    - timely

1.9 Because climate-related risks and opportunities (collectively referred to as 'climate-related issues') are relevant for organisations across all sectors, the Task Force encourages all organisations to implement the recommendations.

1.10 The UK government formally endorsed the TCFD framework[2] and has mandated TCFD-aligned disclosure for large entities in the UK private sector[3].

Rationale for public sector adoption

1.11 Since their inception, the TCFD recommendations have been adopted by a broad range of organisations across countries, industries and sectors. The guidance in this document has been introduced to improve the quality and breadth of climate-related information in

[1] FSB's TCFD guidance: www.fsb-tcfd.org/

[2] www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law

[3] BEIS Climate-related financial disclosures for companies and limited liability partnerships: www.gov.uk/government/publications/climate-related-financial-disclosures-for-companies-and-limited-liability-partnerships-llps

annual reports in central government and align climate-related reporting with the private sector.

1.12 In addition, the TCFD recommendations are being adopted more broadly as the foundation for new international sustainability standards (e.g., upcoming/proposed sustainability standards from IFRS's International Sustainability Standards Board[4] (ISSB) and the International Public Sector Accounting Standards Board[5] (IPSASB)). Adopting TCFD recommendations ensures that the UK public sector is following global best practice.

1.13 There are, however, necessary interpretations and adaptations for applying the TCFD framework in a public sector context which have been addressed in the subsequent chapters.

1.14 The specific public sector interpretations and adaptations have been summarised and explained in Annex A.

Application

1.15 This guidance should be read in conjunction with the TCFD's Guidance: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD's guidance'). Reporting entities should familiarise themselves with the TCFD recommendations and the relevant supporting guidance.

1.16 There is an array of existing material and guidance published by TCFD, as well as other external bodies, which may be useful to expand knowledge, build capacity and enhance reporting - noting the necessary interpretations and adaptations for a public sector context addressed in this guidance.

1.17 The following chapters address the specific disclosure requirements and supporting guidance, categorised into the four TCFD core elements:

• Governance	Chapter 2
• Strategy	Chapter 3
• Risk Management	Chapter 4
• Metrics and Targets	Chapter 5

Implementation approach

1.18 Reporting entities will benefit from adopting TCFD-aligned disclosure in a phased approach. This application guidance is also being released in phases[6]. Disclosure requirements for future phases will be

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4 ISSB www.ifrs.org/groups/international-sustainability-standards-board/

5 IPSASB's consultation on Advancing Public Sector Sustainability Reporting: www.ipsasb.org/publications/consultation-paper-advancing-public-sector-sustainability-reporting

6 HM Treasury has set out a timetable for developing application guidance which has been approved by the Financial Reporting Advisory Board. Refer to Annex 2 in FRAB 149 (13)

released in an updated version of this guidance, with phasing as follows:

Phase 1 (this guidance) addresses:

- general principles including scoping;
- the Governance recommendation and recommended disclosures (a) and (b);
- the Metrics and Targets recommended disclosure (b) – where data is readily available; and,
- the TCFD Compliance Statement requirements.

Phase 2 is anticipated to address:

- the Metrics and Targets recommendation and recommended disclosures (a) and (c); and,
- the Risk Management recommendation and recommended disclosure (a) to (c).

Phase 3 is anticipated to address:

- the Strategy recommendation and recommended disclosures (a) to (c).

1.19 Allowing sufficient time to implement the TCFD recommendations is essential. However, organisations should engage with the framework early, scaling up based on priorities, materiality, and available resources.

1.20 The implementation timetable for in-scope reporting entities in central government, including years of applicability, have been outlined in Annex B.

Scope

1.21 Reporting entities must verify whether they are 'in-scope' of this guidance – refer to Figure 2. Flowchart for applying this guidance.

Central government

1.22 HM Treasury sets the requirements for central government annual reports and accounts in consultation with the Financial Reporting Advisory Board (FRAB). FRAB advise on annual reporting requirements for all relevant authorities across the public sector. This guidance has been reviewed and approved by FRAB.

1.23 All central government departments (ministerial and non-ministerial) must apply this guidance.

1.24 Arm's-length bodies (ALBs) are required to follow this guidance where they have:

- more than 500 employees[7]; or,
- total operating income exceeding £500m; or,
- been instructed by their sponsoring department to follow this guidance.

1.25 This guidance is not mandatory for:

- ALBs not specifically brought into scope in paragraph (para.) 1.22;
- Other central government bodies, where existing TCFD-related regulatory or legislative requirements override this guidance - refer to para. 1.32;
- Wider public sector bodies (unless specifically directed by their respective relevant authority or relevant regulation/legislation – refer to para. 1.26, and 1.32).

Wider public sector

1.26 This guidance does not automatically apply to local government, NHS bodies (Trusts, Foundations, Integrated Care Boards), public corporations, and entities in the devolved administrations.

1.27 Relevant authorities may direct entities to follow this guidance or choose to adapt this guidance to meet their needs. Entities in the wider public sector may wish to consult with their relevant authority on TCFD-aligned disclosure.

Significantly impacted sectors and industrial groups

1.28 Certain sectors and industries are likely to be more impacted by climate-related issues. TCFD identified the following groups as potentially being most affected by climate change and the transition to a lower carbon economy:

Financial:	**Non-financial:**
• Banks	• Energy
• Insurance companies	• Transportation
• Asset owners	• Materials and buildings
• Asset managers	• Agriculture, food, and forest products

1.29 For the financial sector and non-financial groups identified in para. 1.28., the Task Force published supplementary guidance for the recommended disclosures related to Strategy, Risk Management and Metrics and Targets – refer to Figure 1.A.

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[7] Full Time Equivalent (FTE) staff averaged across the reporting period.

Note - the approved final version of the application guidance has been published on GOV.UK. Please refer to this updated version when using the guidance: www.gov.uk/government/publications/tcfd-aligned-disclosure-application-guidance

1.30 Public sector bodies operating in these sectors or industrial groups may similarly be impacted by climate-related issues. Where they are not already brought into scope (para 1.22 to 1.24, and 1.27), or directly impacted regulation/legislation (para 1.32), they should strongly consider making TCFD-aligned disclosure.

1.31 Furthermore, such entities should strongly consider applying the TCFD Supplementary Guidance. Figure 1.A identifies where TCFD has provided supplementary guidance for different sectors.

Figure 1.A TCFD's Supplementary Guidance for financial sector and non-financial groups

Supplemental Guidance for Financial Sector and Non-Financial Groups

		Governance		Strategy			Risk Management			Metrics and Targets		
Industries and Groups		a)	b)	a)	b)	c)	a)	b)	c)	a)	b)	c)
Financial	Banks			■			■			■	■	
Financial	Insurance Companies				■	■	■	■		■	■	
Financial	Asset Owners				■	■	■	■		■	■	
Financial	Asset Managers				■		■	■		■	■	
Non-Financial	Energy				■	■				■		
Non-Financial	Transportation				■	■				■		
Non-Financial	Materials and Buildings				■	■				■		
Non-Financial	Ag, Food, and Forest Products				■	■				■		

Source: www.fsb-tcfd.org/publications/

Entities subject to TCFD-related (or similar) legislation or regulation

1.32 Where an entity is subject to existing legislation or regulation relating to TCFD-aligned disclosure or similar, they must follow the related requirements in full. This can be summarised as follows:

- Publicly quoted companies, large private companies and LLPs should check the BEIS Mandatory climate-related financial disclosure[3].
- Premium-listed and standard-listed companies should check the Financial Conduct Authority (FCA) Listing Rules.
- FCA-regulated companies should check the FCA Climate-related Disclosure Rules. Relevant types of entities include:
  - asset managers
  - life insurers (including pure insurers)

- non-insurer FCA-regulated pension providers, including platform firms and Self-invested Personal Pension (SIPP) operators
- FCA-regulated pension providers

Voluntary adoption

1.33 Applying the TCFD recommendations provides various benefits to both reporting entities and report users. As a result, public sector bodies may choose to voluntarily apply this guidance - in full or in part.

1.34 Where a reporting entity is significantly impacted by climate-related issues, they should consider the need for TCFD disclosure – even where they do not meet the specific criteria for mandatory disclosure laid out in this chapter.

1.35 Where an entity's policy or regulatory remit is heavily influenced by or has a significant influence on climate change, they should also consider whether disclosure is appropriate based on the informational needs of their annual report users.

Principles

Comply or explain

1.36 The TCFD framework is principles-based. In-scope reporting entities must apply a 'comply or explain' basis for disclosure; complying with each of the required TCFD's recommended disclosures; or explaining non-compliance against each of these requirements.

1.37 Where an entity chooses to report voluntarily against this guidance, they are not required to explain non-compliance against disclosure requirements.

1.38 Public sector bodies may face challenges to implementation and disclosure (e.g., resourcing constraints, availability of expertise, capacity limitations, etc.). These need to be balanced with the principles in Managing Public Money (MPM)[8] concerning the use of public funds.

1.39 In rare circumstances, if cost is the reason given for not providing disclosure on a comply or explain scenario, the explanation should include enough details to allow a user to understand why compliance, in that instance, would not give value for money.

1.40 Moreover, it may not be possible for certain public sector bodies to provide sufficient information to meet the requirements of each of the recommended disclosures (e.g., because of legislative or regulatory constraints, commercial or political sensitivity, where there's significant uncertainty, etc.).

[8] MPM: www.gov.uk/government/publications/managing-public-money

1.41 In each case, the reporting entity must explain in enough detail for the user to understand the non-compliance.

Interaction with the phased implementation timetable

1.42 In-scope reporting entities must apply the requirements set out in this guidance on a 'comply or explain' basis at each phase of implementation. For example, for Phase 1 only Governance a) and b), and where available from existing reporting processes, Metrics and Targets b) recommended disclosures have to be reported. Consequently, in-scope reporting entities would only have to explain non-compliance against these recommended disclosures.

1.43 Reporting entities adopting the guidance voluntarily are not required to explain non-compliance in their annual report.

Compliance statement

1.44 Reporting entities must also prepare an overall statement of the extent of consistency with the TCFD's recommended disclosures (referred to in this document as a 'compliance statement').

1.45 The compliance statement must be presented at the start of the TCFD-related disclosures in the annual report and must detail:

- which recommendations and recommended disclosures have been complied with and which have not;
- for those which have not, a short summary of the reason for non-compliance, and any plans for future disclosure.

1.46 Where a reporting entity is implementing in line with an authorised phased implementation timetable, the compliance statement must differentiate between compliance with the timetable and the overall framework, from disclosure requirements for future years - which are not yet expected. Providing more detail on the level of disclosure may also be useful for the report users (e.g., differentiating between qualitative and quantitative responses).

1.47 For example, for Phase 1 a central government department must state which of the recommended disclosures for Governance (a) and (b), and for Metrics and Targets (b) have been complied with, and/or explain any non-compliance against each of these recommended disclosures, as well as state progress against the implementation (see box below for example). Refer to para. 1.18 for further information about the phased implementation timetable for central government.

Example Compliance Statement

[Entity] has reported on climate-related financial disclosures consistent with HM Treasury's TCFD-aligned disclosure application guidance which interprets and adapts the framework for the UK public sector. [Entity] has complied with the TCFD recommendations and recommendations disclosures around [sic]:

> *governance (all recommended disclosures)*
>
> *metrics and targets (disclosures (b)).*
>
> This is in line with the central government's TCFD-aligned disclosure implementation timetable. [Entity] plans to make disclosures for Strategy, Risk Management and Metrics and Targets disclosures (a) and (c) in future reporting periods in line with the central government implementation timetable.

1.48 In addition, certain entities may want to provide broader context on their climate-related financial disclosures, for example, on uncertainty in their assumptions, connectivity with other sections of their annual report, etc. This information should be included alongside the TCFD Compliance Statement.

Interactions with existing requirements

1.49 This guidance has been designed to align with and complement existing climate-related reporting frameworks. Applying this guidance does not override existing reporting requirements (e.g., the Greening Government Commitments (GGCs)) imposed by statute, regulation or other authority.

1.50 Where existing disclosure requirements (in annual reports) align closely with the TCFD's recommendations or recommended disclosures, reporting entities should apply judgment in deciding whether the TCFD requirements have already been met (and can be cross-referenced).

1.51 Delivering concise annual reports, which focus on the needs of the primary user and avoid unnecessary or duplicative information, improves their effectiveness.

Location

Publication

1.52 The TCFD recommends including material climate-related information in the organisation's main financial fillings to improve the linkage and consistency between narrative/performance reports and the financial statements.

1.53 The integration of performance and financial information is essential to improve wider financial management[9]. As a result, HM Treasury requires central government bodies to disclose material climate-related information in annual reports.

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[9] December 2013: Review of Financial Management in Government: www.gov.uk/government/publications/review-of-financial-management-in-government

1.54 While the Task Force recommends the use of separate TCFD reports for certain industries (identified in para. 1.28) where disclosed information is not yet deemed material. HM Treasury is not encouraging central government bodies to do the same. This guidance is for annual reports, with a focus on information material to primary users and does not address separate reporting.

Position

1.55 Reporting entities, in central government, must include the TCFD-related disclosures in the performance reporting section of their annual reports - either within the performance overview/analysis section; incorporated into the sustainability reporting section; or as a new section. Please refer to the Performance Reporting section of the Government Financial Reporting Manual (FReM) for further details.

Reporting boundaries

1.56 In-scope central government bodies are expected to report at a group level (i.e., departments are expected to report on their departmental group). Where in-scope reporting entities are unable to report for their group, they must provide an explanation.

1.57 It is best practice for reporting entities to consider their global operations for the disclosures addressed in this application guidance. This aligns with the TCFD recommendations. However, the minimum reporting requirement in this guidance is to apply the guidance at a national level. It is expected that for future phases in the phased implementation timetable, reporting against global operations will be introduced as a minimum reporting requirement.

Assurance

1.58 As the TCFD-aligned disclosure is within the annual report, it is within the scope of the auditor's opinion on 'other information'. Under ISA 720 the auditor provides a negative consistency opinion on other information which involves reading the other financial and non-financial information and considering whether it is materially inconsistent with the financial statements, the auditors' knowledge obtained through the audit or otherwise appears to be materially misstated.

1.59 However, the TCFD-aligned disclosures are not subject to an assurance opinion from the auditor, and the auditor will not perform any audit procedures on the underlying TCFD information.

Focus

Primary users and materiality

1.60 Climate-related risk is a non-diversifiable risk that affects nearly all industries and sectors. Reporting entities must consider whether climate-related issues are material - either by value or by nature - to the users of the accounts. In making this assessment, the focus should be on the primary users. For central government annual reports, that is Parliament.

1.61 The concept of materiality is about what matters to those using the report. Reporting entities should avoid applying a checklist approach to materiality and should consider the needs of users when judging what is material[10]. Irrelevant or superfluous information which is either common knowledge or fails to add value to the primary user's understanding of the organisation impacts the reporting effectiveness.

1.62 In-scope reporting entities must provide recommended disclosures for Governance (a) and (b) and Metrics and Targets (b) (as laid out in this guidance) independent of a materiality assessment - explaining any non-compliance.

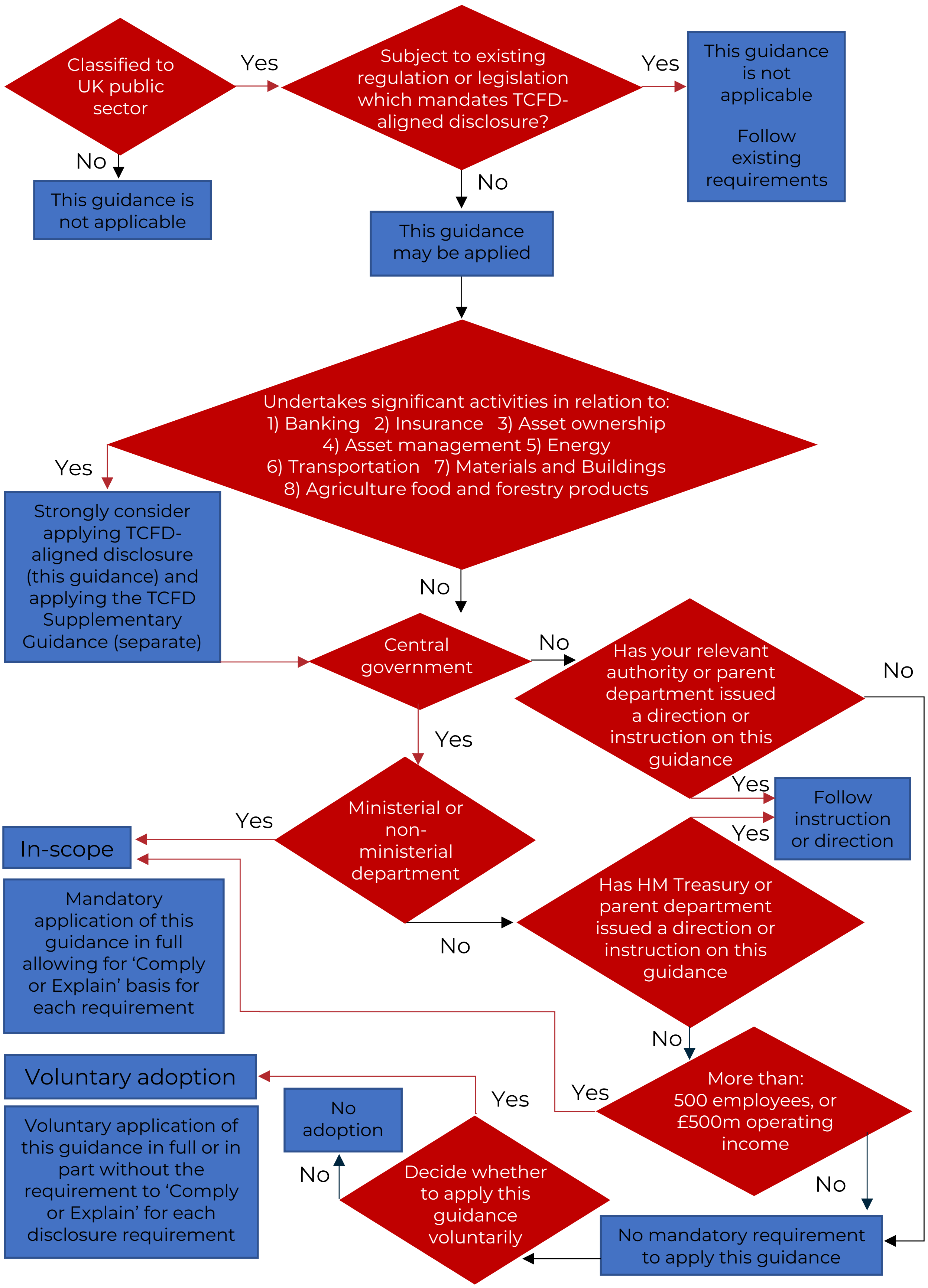
10 April 2019: Government Financial Reporting Review: www.gov.uk/government/publications/the-government-financial-reporting-review

Note - the approved final version of the application guidance has been published on GOV.UK. Please refer to this updated version when using the guidance: www.gov.uk/government/publications/tcfd-aligned-disclosure-application-guidance

Figure 1 Overview of the TCFD framework

Note - the approved final version of the application guidance has been published on GOV.UK. Please refer to this updated version when using the guidance: www.gov.uk/government/publications/tcfd-aligned-disclosure-application-guidance

Figure 2 Flowchart for applying this guidance



Chapter 2
Governance

2.1 Good governance is fundamental to any effective and well-managed organisation – be it private or public sector – and is the hallmark of any entity that is run accountably and with long-term interests clearly in mind.

Recommendation for Governance

Disclose the organisation's governance around climate-related issues.

Overview

2.2 This chapter addresses the disclosure of an organisation's governance arrangements for climate-related issues. These principally qualitative disclosures are designed to assist report users to assess the adequacy and effectiveness of an organisation's board to oversee, evaluate and manage climate-related issues.

Materiality

2.3 While para. 1.60 supports flexibility for annual report preparers when considering materiality, the Task Force's guidance requires disclosure related to this pillar to be included in annual reports without being subject to a further materiality assessment. This is driven by climate-related risks being non-diversifiable and having a wide impact.

2.4 Parliamentary focus on climate change has increased with various committees, Commons debates and house questions on the topic. Similarly, there has been an increased focus from the public. In line with the TCFD, our assessment is that disclosures related to Governance, which are fundamental to managing an organisation's climate-related risks, are material by nature.

2.5 Consequently, in-scope bodies should provide the recommended disclosures for Governance. The level of detail provided remains at the discretion of preparers but should meet the needs of the primary users of annual reports.

Applicability

2.6 The management structures for making decisions and holding responsibility in the public sector are not always aligned with the private sector.

2.7 While the Code of Good Practice[11] has embedded the 'department board model' into central government; other public sector bodies may have governance structures which vary significantly from private corporations. In such instances, the principles for the recommended disclosures should be applied – even if the terminology, composition and structures themselves are different.

Recommended disclosures

2.8 A reporting body should disclose information which allows a user of its annual reports to understand how risks and opportunities relating to climate change are identified, considered, and managed within its governance structure.

2.9 This section sets out the TCFD recommended disclosures (see boxes below) for Governance, with the supporting TCFD guidance in red. The supporting TCFD guidance includes minor public sector interpretations and adaptations - denoted in italics and explained in Annex A.

2.10 Further guidance on each recommended disclosure, has been included to support preparers with disclosure (e.g., public sector-specific considerations). This also draws from common findings from the TCFD reviews on private companies conducted by the Financial Conduct Authority's[12] and Financial Reporting Council's[13].

Recommended disclosure for Governance (a)

Board's oversight

Describe the board's oversight of climate-related issues.

Supporting TCFD guidance

In describing the board's oversight of climate-related issues, organisations should consider including a discussion of the following:

- processes and frequency by which the board and/or board committees (e.g., audit, risk, or other committees) are informed about climate-related issues;
- whether the board and/or board committees consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and *organisation plans* as well as setting the organisation's

[11] www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017

[12] www.fca.org.uk/publications/multi-firm-reviews/tcfd-aligned-disclosures-premium-listed-commercial-companies

[13] www.frc.org.uk/getattachment/65fa8b6f-2bed-4a67-8471-ab91c9cd2e85/FRC-TCFD-disclosures-and-climate-in-the-financial-statements_July-2022.pdf

performance objectives, monitoring implementation and performance, and overseeing major capital expenditures investment or grant decisions, and restructures *(e.g., Machinery of Government changes)*; and

- how the board monitors and oversees progress against goals and targets for addressing climate-related issues.

Further guidance

2.11 Disclosure may include information on whether the organisation's climate policies and strategies are addressed by the same governance processes, disclosure controls and procedures used for financial management or alongside other risk management processes (e.g., strategic, stakeholder management, safety, etc.).

2.12 Where certain climate policies and specific strategies have been set by an authority outside of the organisation, the disclosure should include a brief description and may cross-reference to external sources.

2.13 The Orange Book sets out principles for effective risk management and is applicable to all central government departments and their ALBs. The guidance principles may be useful to other public sector bodies. Section A: Governance and Leadership is pertinent to this chapter.

Recommended disclosure for Governance (b)

Management's role

Describe management's role in assessing and managing climate-related issues.

Supporting guidance

In describing management's role related to the assessment and management of climate-related issues, *organisations* should consider including the following information:

- whether the organisation has assigned climate-related responsibilities to management-level positions or committees; and, if so, whether such management positions or committees report to the board or a committee of the board and whether those responsibilities include assessing and/or managing climate-related issues;
- a description of the associated organisational structure(s);
- processes by which management is informed about climate-related issues; and
- how management (through specific positions and/or management committees) monitors climate-related issues.

Further guidance

2.14 In this guidance, management refers to the structures below the Board. For central government, this would include the structures described in the Corporate Governance Report – please refer to the FReM.

2.15 Reporting entities should disclose the key reporting channels and processes for climate-related issues, and how these are integrated into the organisation's overall governance. The information disclosed may include the responsibilities of relevant committees or individual management positions (e.g., job titles, individuals accountable), as well as identify specific reviews being undertaken.

2.16 For example, reporting entities may want to disclose if a member of their Executive Committee is responsible for internal climate change policy, or how climate change issues are considered in investment committees and decisions.

Further considerations

2.17 If no directors have oversight of climate-related risks and opportunities and/or no individual within the organisation has responsibility for assessing or managing climate-related issues, then this should be stated.

2.18 The disclosures interact with other requirements in annual reports, and reporting entities should appropriately cross-reference to enable users to understand the governance of climate change and the actions by the board in an overall context (e.g., to the Governance Statement).

2.19 Where climate change has been identified as a principal risk, entities should indicate how climate change has been addressed as a principal matter for the organisation.

Chapter 3
Strategy

3.1 HM Treasury intends to publish TFCD Application Guidance for Strategy in an updated version of this document, in line with the announced timetable – refer to Annex B.

3.2 The Task Force has published their recommendations and guidance for Strategy on their website. Public sector bodies can choose to implement the TCFD recommendations independently and are encouraged to do so if these recommendations are deemed material to the users of annual reports.

Chapter 4
Risk Management

4.1 HM Treasury intends to publish TFCD Application Guidance for Risk Management in an updated version of this document, in line with the announced timetable – refer to Annex B.

4.2 The Task Force has published their recommendations and guidance for Risk Management on their website. Public sector bodies can choose to implement the TCFD recommendations independently and are encouraged to do so if these recommendations are deemed material to the users of annual reports.

Chapter 5
Metrics and Targets

Introduction

5.1 HM Treasury intends to publish full TFCD Application Guidance for Metrics and Targets in an updated version of this document, in line with the announced timetable – refer to Annex B. No additional Metrics and Targets reporting requirements are expected at this stage.

5.2 Rather than introducing additional Metrics and Targets requirements, this chapter addresses the linkage between the Metrics and Targets recommended disclosure (b) with existing emission-related reporting requirements. This is particularly pertinent to central government, where there are existing emissions reporting requirements[14] for annual reports.

5.3 The Task Force has published their recommendations and guidance for Metrics and Targets on their website. Public sector bodies can choose to implement the TCFD recommendations independently and are encouraged to do so if these recommendations are deemed material to the users of annual reports.

5.4 This guidance below does not address TCFD's recommendation for Metrics and Targets (box below) in full. These will be addressed in Phase 2. The guidance in this chapter only addresses the interaction between Metrics and Targets recommended disclosure (b) and existing emissions-related reporting requirements

> **Recommendation for Metrics and Targets**
>
> Disclose the metrics and targets used to assess and manage relevant climate-related issues where such information is material.

Overview

5.5 Metrics and targets are essential for monitoring performance and tracking progress. The Climate Change Act[15] commits the UK government by law to reduce Greenhouse Gas (GHG) emissions – similar legislation has been set by devolved administrations. Central

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14 HM Treasury publishes annual sustainability reporting requirements for central government bodies falling into the scope of the GGCs: https://www.gov.uk/government/collections/public-sector-annual-reports-sustainability-reporting-guidance

15 Climate Change Act 2008: www.legislation.gov.uk/ukpga/2008/27/contents

government and wider public sector bodies may have set their own net zero commitments.

5.6 Parliament, the public and other stakeholders need to understand how an organisation measures and monitors its climate-related risks and opportunities. This transparency enables them to track an individual entity's performance.

Recommended disclosures

5.7 Stakeholders require a clear understanding of an organisation's methods for assessing and tracking climate-related risks and opportunities. Access to the metrics and targets employed by the organisation enables stakeholders to make informed evaluations of its performance, level of vulnerability to climate-related issues, and the progress made in effectively managing or adapting to those issues.

5.8 The requirements for Metrics and Targets recommended disclosure (b) for emissions reporting are not being introduced in Phase 1. The detail in this section enables a comparison between existing emissions reporting and the TCFD requirements.

5.9 This section sets out the TCFD's recommended disclosure for Metrics and Targets (b) (box below), with the supporting TCFD guidance in red. The supporting TCFD guidance includes minor public sector interpretations and adaptations - denoted in italics and explained in Annex A.

Recommended disclosure for Metrics and Targets (b)

Emissions reporting

Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks.

Supporting guidance

Organisations should provide their Scope 1 and Scope 2 GHG emissions independent of a materiality assessment, and, if appropriate, Scope 3 GHG emissions and the related risks. All organisations should consider disclosing Scope 3 GHG emissions.

GHG emissions should be calculated in line with the GHG Protocol methodology to allow for aggregation and comparability across organisations and jurisdictions. As appropriate, organisations should consider providing related, generally accepted industry specific GHG efficiency ratios.

GHG emissions and associated metrics should be provided for historical periods to allow for trend analysis. In addition, where not apparent, organisations should provide a description of the methodologies used to calculate or estimate the metrics.

Interaction with existing requirements

Central government

5.10 Currently, the GGCs require certain central government bodies to report on emissions, including Scope 1, Scope 2 and Scope 3 – business travel only. The SRG[14] requires these same emissions scopes for annual reports. At present, further categories of Scope 3 GHG emissions (in addition to business travel) are not required for GGC or SRG purposes. For Phase 1, central government bodies must apply the same organisational boundary as applied in the SRG where this is different to the principle set out in para. 1.56.

5.11 Where central government bodies report on emissions, in line with the SRG, they may choose to include this information in the same location as the TCFD Compliance Statement and recommended disclosures or continue to report in the sustainability report. However, appropriate cross-referencing should be added.

5.12 Central government bodies that are in scope of this guidance (refer to para. 1.22 to 1.25) but that do not report under the GGCs - either due to an exemption or designation within central government - are not expected to report on Metrics and Targets in 2023-24.

Other public sector bodies

5.13 Other public sector bodies intending to adopt the TCFD recommendations may benefit from considering emissions reporting early on in their implementation plan.

5.14 These considerations may necessitate new reporting procedures, adapting/extending existing voluntary reporting, or assessing alignment of their existing frameworks with the TCFD guidance. Relevant authorities should be consulted where appropriate.

5.15 The GHG Protocol is the most widely used methodology and underpins most emissions reporting frameworks – including the TCFD's framework (refer to the box and supporting guidance in red on the previous page).

Annex A
Interpretations and adaptations

A.1 The Task Force developed their recommendations for the private sector. Consequently, certain key principles, concepts and terms used in the TCFD guidance have to be interpreted for a public sector context.

A.2 Table 5.A (below) identifies and explains the public sector interpretations and adaptions for the TCFD framework. These interpretations and adaptions are limited specifically to this guidance and should not be applied more widely.

Table 5.A Public sector interpretations and adaptations

Private sector	Public sector	Explanation
Business	Organisation	Encompasses a wider array of bodies, including those in the public sector.
Business plan	Organisation plan	A plan sets out what an organisation does, and what it is trying to achieve. For the private sector, this is focused on making profit; whereas for the public sector this is focused on delivery. For example, this could be the sustainability enabler with a central government department's Outcome Deliver Plan (ODP).
Acquisition and divestures	Investment and grant decisions, or restructures (e.g., Machinery of Government changes)	While public sector bodies can acquire and divest other investments; these decisions tend to encompass a broader array of actions, including different types of restructures (e.g., Machinery of Government changes), grants, and investments.
Sectors	Services	Private sector entities are able to define their own sectors for categorisation. TCFD identifies specific sectors, for which 'government' is a single category. For the public sector,

		standardising categorisations improves comparability and consistency.
Products and services	Public good and services	The public sector delivers public goods and services, not products and services.
Supply chain and/or value chain	Supply chain	The public sector is focused on the delivery of public goods and services - not profit. This is not limited to monetizable value.
Investment in research and development	Funding research and development;	Equity investment in the private sector is common. Other forms of funding (e.g., grant funding) are also used in the public sector. Consequently, funding has been used to encompass the broader funding streams.
Access to capital	Access to parliamentary supply, other funding, and resources	For the private sector, access to capital predominantly refers to cash raised from debt and equity. For the public sector, funds are predominantly raised via taxes (as well as fees and levies), borrowing and other sources (e.g., donations or selling public assets).

Annex B

Phased implementation approach

B.1 The TCFD recommendations are intended to fundamentally change how organisations address climate change and its impacts, culminating in insightful disclosures. A phased approach (both in scope and timing) provides reporting entities with solid building blocks to allow for the most effective implementation of the TCFD recommendations.

B.2 In the private sector, generally, organisations have chosen to provide the Governance disclosures first as these engage senior leadership and are higher level/ more qualitative. Organisations often then provide disclosures for Risk Management and Metrics and Targets, before attempting the more complex and qualitative disclosures for Strategy. This has informed our implementation timetable for central government which is set out in Table 5.B (next page).

B.3 While in-scope central government bodies should follow the implementation timetable set out in Table 5.B, the 'comply or explain' principle applies to the overall implementation approach just as it does to individual disclosures. Therefore, entities may choose to diverge from the implementation timetable, on the condition that they provide an explanation in the TCFD Compliance Statement (refer to para 1.44).

B.4 Public sector bodies should assess progress and evaluate performance throughout implementation, with an appropriate level of review and oversight by those charged with governance in their review and approval of each year's annual report.

B.5 Setting out a clear and realistic implementation timetable for TCFD recommendations is likely to improve the quality and effectiveness of disclosure. The phased approach for central government may be used as a template, recognising the differences in users' informational needs, risks and capacity. Relevant authorities may choose to set their own implementation timetables which entities should remain alert to.

B.6 A reporting entity may choose to follow a slower implementation timetable. In-scope reporting entities would provide an explanation for non-compliance with the timetable. Where such information gaps are considered material, the reporting entity should set out its future plans to address the gaps. The information needs of users should be the driving factor in determining what to include in annual reports. Applying appropriate judgement to the level and breadth of disclosure is key to producing effective and useful public sector annual reports.

Note - the approved final version of the application guidance has been published on GOV.UK. Please refer to this updated version when using the guidance: www.gov.uk/government/publications/tcfd-aligned-disclosure-application-guidance

Table 5.B Overview of TCF-aligned implementation phases in central government

	Phase 1 – Governance focus	Phase 2 – Risk Management and Metrics and Targets	Phase 3 – Strategy
Target period	2023-24 (for annual reports ending 31 March 2024)	2024-25 (for annual reports ending 31 March 2025)	2025-26 (for annual reports ending 31 March 2026)
Focus	High-level overview	Qualitative disclosures and quantitative disclosure with less technical requirements	Quantitative disclosures with more technical requirements. TCFD-aligned disclosure is fully implemented
Requirements	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: • Governance • Metrics and Targets (b), only where available from existing reporting processes. Comply or explain basis	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: • Governance • Risk Management • Metrics and Targets Comply or explain basis	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: • Governance • Risk Management • Metrics and Targets, considering wider reporting. • Strategy Comply or explain basis
Interaction with GGC framework	Continue to apply GGC21-25 for emissions for Metrics and targets., in line with SRG	Continue to apply GGC21-25 emissions for Metrics and Targets, in line with SRG	Consider new GGC period for 25-30 (GGC21-25 runs until 31 March 2025 with the next commitment period for GGC25-30 starting on 1 April 2025)

Annex C
List of abbreviations

C.1 Please refer to Table 5.C (below) for a list of abbreviations used in this document.

Table 5.C List of abbreviations

ALB	Arm's-length Body
FCA	Financial Conduct Authority
FRAB	Financial Reporting Advisory Board
FReM	Government Financial Reporting Manual
FSB	Financial Stability Board
FTE	Full-time equivalents
GGCs	Greening Government Commitments
GHG	Greenhouse Gas
MPM	Managing Public Money
IPSASB	International Public Sector Accounting Standards Board
ISSB	International Sustainability Standards Board
ODP	Outcome Delivery Plan
SRG	Sustainability Reporting Guidance
TCFD	Task Force on Climate-related Financial Disclosure
ALB	Arm's-length Body

Note - the approved final version of the application guidance has been published on GOV.UK. Please refer to this updated version when using the guidance: www.gov.uk/government/publications/tcfd-aligned-disclosure-application-guidance

HM Treasury contacts

This document can be downloaded from www.gov.uk

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