



HM Treasury

TCFD-aligned disclosure

**Exposure draft: Application
guidance**

Phase 1, 2 & 3

DRAFT

July 2024

TCFD-aligned disclosure

**Exposure draft: Application
guidance**

Phase 1, 2 & 3



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Contents

Invitation to comment	8
Questions	9
Foreword	12
Chapter 1 Introduction	14
Overview	14
Application	17
Scope	18
Concepts and Principles	21
Chapter 2 Governance	33
Overview	33
Recommended disclosures	34
Chapter 3 Strategy	37
Overview	37
Principal, new and emerging risks	38
Recommended disclosures	41
Climate scenario analysis	50
Chapter 4 Risk Management	43
Overview	58
Recommended disclosures	59
Chapter 5 Metrics and Targets	62
Overview	62
Recommended disclosures	65
Annex A Further guidance	70
Annex B Phased implementation approach	86
Annex C List of abbreviations	89

Invitation to comment

Introduction

HM Treasury has published this Exposure Draft to consult on new climate-related financial disclosures. These are based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

These requirements follow on from the [TCFD-aligned disclosure application guidance - Phase 1 and Phase 2](#) document published in March 2024.

This Exposure Draft covers the whole UK public sector, which is the boundary for Whole of Government Accounts. However, the relevant authority for each jurisdiction within that boundary will have their own due process for proposing and approving changes to their reporting regime. This consultation does not supplant those processes. The proposed changes are published for comment only. The proposals may be modified before being formally presented to the Financial Reporting Advisory Board (FRAB) for its approval.

Structure of Exposure Draft

The Exposure Draft provides the proposed application guidance for Phase 3 of TCFD implementation, and the proposed adaptations and interpretations for the TCFD framework, as well as UK public sector-specific considerations.

Invitation to comment

HM Treasury invites comments on the new application guidance being applied to central government and the wider UK public sector. Responses to the questions set out in [Chapter 3](#) would be particularly welcomed. Comments are most helpful if they:

- Respond to the question as stated
- Indicate the specific paragraph or paragraphs to which they relate
- Contain a clear rationale
- Describe any alternatives HM Treasury should consider

Comments on this Consultation Paper should be submitted in writing so as to be received by **Dddd DD September 2024**. Respondents are asked to send their comments electronically to Resource.Accounts@hmtreasury.gov.uk.

All responses will be published on the GOV.UK website unless the respondent requests confidentiality.

HM Treasury will consider all comments received in writing by **Dddd DD September 2024**. In considering the comments, HM Treasury will base its conclusions on the merits of the arguments for and against the

alternative, not on the number of responses supporting each alternative.

Effective date

The proposed effective date for this guidance for central government bodies is 1 April 2025.

Other public sector bodies should follow the direction from their respective relevant authority. Public sector bodies may choose to voluntarily apply this guidance - in full or in part.

Questions

Question 1:

Is the Principal, new and emerging risk section sufficiently clear? Does the guidance on risk assessments, risk reporting and risk prioritisation adequately set out the expectation and disclosure requirements, and support preparers? If not, what further detail should be added?

Question 2 a)

Do you support our approach to not adapt Strategy recommended disclosure a) or the Supporting Guidance from TCFD? If not, why not?

Question 2 b)

Is the additional detail on time horizons, impacts with respect to broader public sector considerations, and climate-related opportunities sufficiently clear? Do you support this public sector interpretation? If not, why not?

Question 3 a)

Do you support our approach to not adapt Strategy recommended disclosure b) or the Supporting Guidance from TCFD? Do you support the interpretations for Strategy recommended disclosure b) and the Supporting Guidance from TCFD? If not, why not?

Question 3 b)

Is the additional clarification and guidance on impacts with respect to broader public sector considerations, and quantification is sufficiently clear? If not, why not? Do you believe further guidance is required in this sub-section? If so, what?

Question 4

Are you supportive of the adaption to Strategy recommended disclosure c) to remove the revenue size thresholds consideration for robust scenario analysis; and instead apply this guidance in deciding the level of detail for climate scenario analysis? Do you believe further guidance is needed in this section? If so, what?

Question 5

Are you supportive of the application guidance setting a common reference periods of mid-century (2050s)? If not, why not? Which alternative reference period (or anchor point) would you suggest, if any?

Question 6 a)

Are you supportive of the application guidance setting a common reference period of the end of the century (2080-2100)?

Question 6 b)

Are you supportive of this reference period, only being required where reporting entities:

1. own, manage or regulate significant long-life assets or infrastructure; or,
2. deliver essential public goods and services which are likely to be significantly impacted by climate change; or,
3. set longer term policy which is, or regulate industries/sectors that are, likely to be significantly impacted by climate change.

Do you support the chosen test characteristics. If not, why not? What alternative text characteristics would you suggest?

Is this guidance sufficiently clear for reporting entities? If not, why not?

Question 7

Are you supportive of mandating a total of three reference periods (or points)? Are you supportive of near-term reference periods (or points) being selected by the organisation?

Is this guidance sufficiently clear? If not, why not?

Question 8

Are you supportive of aligning climate scenario analysis with the global warming level/temperature pathways set out by the Climate Change Committee? If not, why not? Do you believe further guidance is needed in this section - including on alternative physical and socio-economic pathways? If so, what?

Question 9

Is the guidance on transition pathways and shadow carbon pricing sufficiently clear? Does this support preparers with this type of analysis and disclosure? If not, what further detail should be added? Are there any other potential or perceived risks which have not been addressed in this guidance?

Question 10

Do you support the approach that scenario analysis is conducted every 3 to 5 years, or more frequently where the assumptions used no longer apply? Is the associated guidance sufficiently clear? If not, why not? Do you believe further guidance is needed in this section? If so, what

Question 11

Is the Climate Scenario Analysis section sufficiently clear? Does the guidance on transition driven pathways, and support preparers with this type of disclosure? If not, what further detail should be added? Do you believe further guidance is needed in this section?

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 2025-26. A three-year phased implementation approach to TCFD recommendations has been used for central government of which this is the final stage – refer to Annex B for more details.

Scope

This guidance applies to all departments (ministerial and non-ministerial), central government and wider public sector bodies that meet specific criteria or where they have been directed/instructed to follow the guidance by their respective relevant authority¹. 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 set out the disclosure requirements for the first year of implementation. In-scope reporting entities were required to include the following:

- a TCFD Compliance Statement – summarising the extent to which 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) describe the board’s oversight of climate-related issues.
 - (b) describe management’s role in assessing and managing climate-related issues.

¹ Each relevant authority sets the requirements for entities in their jurisdiction, including HM Treasury for central government bodies, other national governments for their Arms-Length Bodies (ALBs) in the devolved administrations (Scotland, Wales and Northern Ireland), the Department for Health and Social Care (DHSC) for NHS bodies, the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (CIPFA/LASAAC) for local government.

- the TCFD Metrics and Targets recommended disclosure:
 - (b) disclose Scope 1, Scope 2, and, if appropriate, Scope 3 Greenhouse Gas (GHG) emissions, and the related risks -aligning with existing GHG emissions reporting methodologies where appropriate.

Phase 2 set out the disclosure requirements for the second year of implementation. In addition to Phase 1 disclosure requirements, Phase 2 included:

- the TCFD Risk Management recommended disclosures:
 - (a) describe the organisation's processes for identifying and assessing climate-related risks.
 - (b) describe the organisation's processes for managing climate-related risks.
 - (c) describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.
- the TCFD Metrics and Targets recommended disclosures:
 - (a) disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
 - (c) describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Phase 3 of this application guidance sets out the disclosure requirements for the third year of implementation. In addition to Phase 1 and Phase 2 disclosure requirements, Phase 3 includes:

- the TCFD Strategy recommended disclosures:
 - (a) describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.
 - (b) describe the impact of climate-related risks and opportunities on the organisation's operations[†], strategy, and financial planning.
 - (c) describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or 4°C scenario[†].

[†] *Interpretation and adaptations have been made to the TCFD recommended disclosures as set out in subsequent chapters.*

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 approximately 4 millimetres per year ² 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 collectively as ‘annual reports’). An overview of the TCFD framework has been included in [Figure 1.1](#) at the end of this section.

Overview

1.3 The government recognised the recommendations of the Financial Stability Board’s (FSB’s) 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 risks 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

² [State of the UK Climate 2021 - Kendon - 2022 - International Journal of Climatology - Wiley Online Library](#)

principles are being adopted more broadly across different sectors and by international standard setters.

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 assets³ and exposures to climate-related risks.

1.8 The Task Force published their recommendations in 2017⁴, 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 framework⁵ and has mandated TCFD-aligned disclosure for large entities in the private sector⁶.

³ Carbon-related assets are generally considered to refer to assets with relatively high direct or indirect GHG emissions

⁴ FSB's TCFD guidance: www.fsb-tcfid.org/

⁵ www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law

⁶ 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

Figure 1.1 Overview of the TCFD framework



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 public sector annual reports and align climate-related reporting with the private sector.

1.12 In addition, the TCFD recommendations are being adopted as the foundation for new and developing international sustainability standards, including the International Financial Reporting Standards (IFRS) Foundation's International Sustainability Standards Board ⁷ (ISSB) and the International Public Sector Accounting Standards Board ⁸ (IPSASB). Implementing TCFD's recommendations aligns the UK public sector with global best practice.

Application

1.13 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.

1.14 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. These have been summarised, alongside further guidance, in Annex A.

Implementation approach

1.15 Reporting entities will likely benefit from adopting TCFD-aligned disclosure in a phased approach. This application guidance is also being released in phases. Disclosure requirements for future phases will be released in an updated version of this guidance, with phasing as follows:

Phase 1 (issued July 2023) addressed:

- general principles (including scoping);
- the Governance recommendation and recommended disclosures⁹ (a) and (b);

⁷ ISSB's has issued IFRS-S1 General Sustainability-related Disclosures and IFRS-S2 Climate-related Disclosures www.ifrs.org/groups/international-sustainability-standards-board/

⁸ IPSASB's consultation on Advancing Public Sector Sustainability Reporting: www.ipsasb.org/publications/consultation-paper-advancing-public-sector-sustainability-reporting

⁹ For brevity and simplicity, recommended disclosure for each of the four pillars have been abbreviated in this guidance. For example, Strategy recommended disclosure c) is occasionally referred to as Strategy c).

- the Metrics and Targets recommended disclosure (b) – where data is available; and,
- the TCFD Compliance Statement requirements.

Phase 2 (issued March 2024) addressed:

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

Phase 3 (this guidance) addresses:

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

1.16 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.

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

Scope

1.18 Reporting entities must verify whether they are ‘in-scope’ of this guidance – refer to [Figure 1.2 Flowchart for applying this guidance](#).

Central government

1.19 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.

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

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

- more than 500 employees¹⁰; or,
- total operating income and funding received (including grant-in-aid) exceeding £500m; or,
- been instructed by their sponsoring department to follow this guidance.

¹⁰ Full Time Equivalent (FTE) staff averaged across the reporting period.

1.22 This guidance is not mandatory for:

- ALBs not explicitly brought into scope in paragraph (para.) 1.21;
- Other central government bodies where existing TCFD-related regulatory or legislative requirements override this guidance - refer to para. 1.28;
- Wider public sector bodies (unless specifically directed by their respective relevant authority or relevant regulation/legislation – refer to para. 1.24).

Wider public sector

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

1.24 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

1.25 Certain sectors and industries are likely to be more impacted by climate-related issues. TCFD identified certain industries and groups, categorised in Table 1.1 (next page), considered to potentially be most affected by climate change and the transition to a lower carbon economy. Accordingly, the Task Force published supplementary guidance for these industries and groups for recommended disclosures related to Strategy, Risk Management and Metrics and Targets.

1.26 Climate-related issues may similarly impact public sector bodies operating in these industries and groups. Where they are not already brought into scope, or directly impacted by regulation/legislation (para. 1.28), they should strongly consider making TCFD-aligned disclosure.

1.27 Where these activities are not the primary or sole function of the body but might still apply to certain operations, the organisation should assess the overall materiality of the related information and should strongly consider making TCFD-aligned disclosure if this information is material to the organisation as a whole. This assessment should consider:

- The relative importance of the associated climate-related risks (and impacts) from these operations, compared to other risks faced by the organisation.
- The relative size and magnitude of these activities to the entity overall.
- The responsibility and influence of the entity (e.g., policy setting or regulatory role)

1.28 Furthermore, such entities should strongly consider applying the [TCFD Supplementary Guidance](#). Table 1.1 (next page) identifies the specific industries and groups TCFD has provided supplementary guidance to.

Table 1.1 TCFD's Supplementary Guidance for Financial Sector and Non-Financial Groups

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

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

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

1.29 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 disclosure⁶.
- 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

1.30 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.

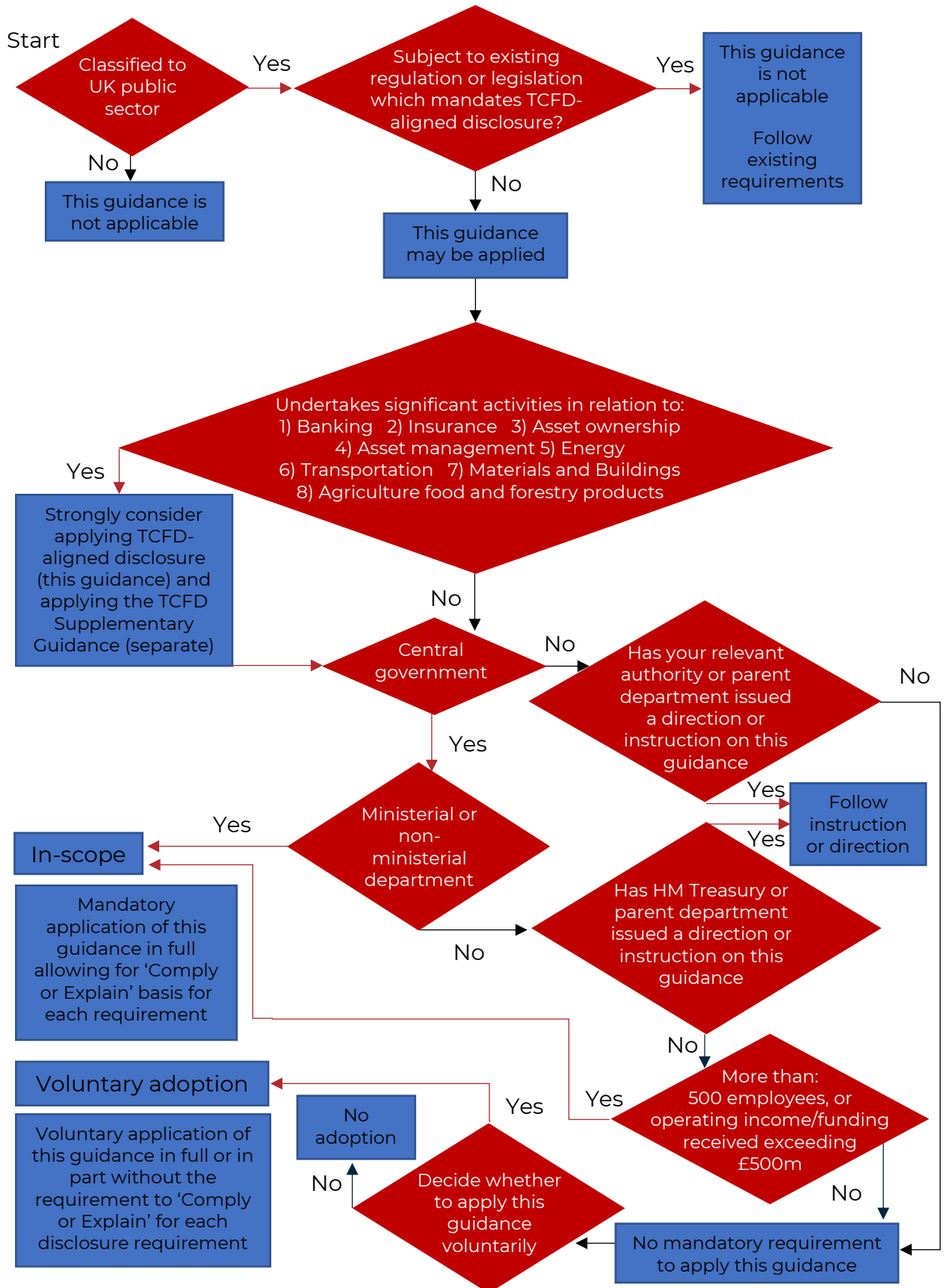
1.31 Where a reporting entity is significantly impacted by climate-related issues, they should consider the need for TCFD disclosure – even where they do not meet the specific criteria for mandatory disclosure laid out in this chapter. In addition to increased transparency for key stakeholders across the four pillars, the related disclosure provides management with decision-useful information.

1.32 Reporting entities that are significantly impacted by climate change should also consider whether other financial reporting disclosures are necessary under IFRS Accounting Standards¹¹.

1.33 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.

¹¹ IFRS published educational material on [effects of climate-related matters on financial statements](#) in July 2023

Figure 1.2 Flowchart for applying this guidance



Concepts and Principles

Comply or explain

1.34 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 the requirements.

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

1.36 Public sector bodies may face challenges to implementation and disclosure (e.g., resourcing constraints, availability of expertise, capacity limitations, data availability, etc.). These need to be balanced with the principles in Managing Public Money (MPM)¹² concerning the use of public funds.

1.37 In rare circumstances, if cost is the reason given for not providing disclosure, the explanation should include enough detail to allow a user to understand why compliance, in that instance, would not deliver value for money.

1.38 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, significant uncertainty, etc.).

1.39 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

1.40 In-scope reporting entities must apply the requirements set out in this guidance on a 'comply or explain' basis at each phase of implementation. Compliance is only required for requirements set out in that phase of the application guidance. Non-compliance must be explained until such time as compliance is reached. Please refer to the Example Compliance Statement (next page).

Compliance Statement

1.41 Reporting entities¹³ 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').

¹² MPM: www.gov.uk/government/publications/managing-public-money

¹³ Reporting entities adhering to the DHSC Group Accounting Manual (GAM) are not required to include a TCFD Compliance Statement. Refer to DHSC GAM for further details.

1.42 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.

1.43 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.

1.44 For example, for Phase 2 a central government department must state which of the recommended disclosures for Governance, Risk Management and for Metrics and Targets have been complied with, and/or explain any non-compliance against each of these recommended disclosures, as well as state progress against the implementation. Refer to Annex B for further information about the phased implementation timetable for central government.

Example: TCFD 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] considers climate to be a principal risk, and has therefore complied with the TCFD recommendations and recommendations disclosures around [sic]:

- *Governance - recommended disclosures (a) and (b)*
- *Risk Management - recommended disclosures (a) to (c)*
- *Metrics and Targets - recommended disclosures (a) to (c)*

This is in line with the central government's TCFD-aligned disclosure implementation timetable for Phase 2. [Entity] plans to provide recommended disclosures for Strategy in future reporting periods in line with the central government implementation timetable.

1.45 In addition, organisations may use the Compliance Statement to provide a broader context on their climate-related financial disclosures, for example, uncertainty in their assumptions, connectivity with other sections of their annual report, differentiating between qualitative and quantitative responses, etc.

Primary users

1.46 Reporting entities must consider whether climate-related issues and information is material - to the users of the accounts. In making this assessment, the focus should be on the primary users.

1.47 For central government annual reports and accounts, Parliament is the primary user. HM Treasury requires central government bodies to disclose material climate-related information in their annual reports and accounts.

1.48 Relevant authorities across the public sector require material information in annual reports; however, the decision on who constitutes a primary user may vary. Consequently, relevant authorities may set different requirements concerning where to report information and at what level of detail.

Materiality

1.49 Information is material if its omission or misrepresentation could reasonably be expected to influence the decisions primary users take based on the annual report as a whole. As a general principle, reporting entities should disclose material financial and non-financial information in the annual report that is necessary for the understanding of the performance and accountability of the entity.

1.50 Materiality assessments of climate-related information should be consistent with the materiality assessment of other information included in their annual report (and accounts).

1.51 Across the UK public sector, different reporting channels are used for different reporting purposes. This may impact judgements on what information is included in the annual report, and in what level of detail.

Climate as a material topic

1.52 Parliamentary focus on climate change has increased with various committees, Commons debates and parliamentary questions on the topic. Similarly, there has been an increased interest from the public and other stakeholders.

1.53 While annual report preparers need to exercise judgement when considering materiality, the Task Force requires disclosures related to the Governance and Risk Management pillars, as well as Metrics and Targets recommended disclosure (b) - on Scope 1¹⁴ and Scope 2 GHG emissions only - to be included in annual reports, without being subject to a further materiality assessment.

¹⁴ The GHG Protocol defines emission scopes. An Overview of GHG Protocol scopes and emissions across the value chain has been included in Annex A.

1.54 This information is fundamental to understanding an organisation’s ability to manage climate-related risks. This guidance aligns with TCFD’s view on materiality.

	Governance		Strategy			Risk Management			Metrics and Targets		
	(a)	(b)	(a)	(b)	(c)	(a)	(b)	(c)	(a)	(b)	(c)
Not subject to materiality assessment	■	■				■	■	■		■	
Subject to materiality assessment			■	■	■				■		■

Scope 1 and 2 GHG emissions only

Materiality assessment

1.55 Materiality assessments require an assessment to establish an organisation’s exposure and vulnerability to climate-related issues, and whether these constitute a principal risk (or significant component of a principal risk) for the organisation. Refer to [Chapter 3](#) for further guidance on principal risks.

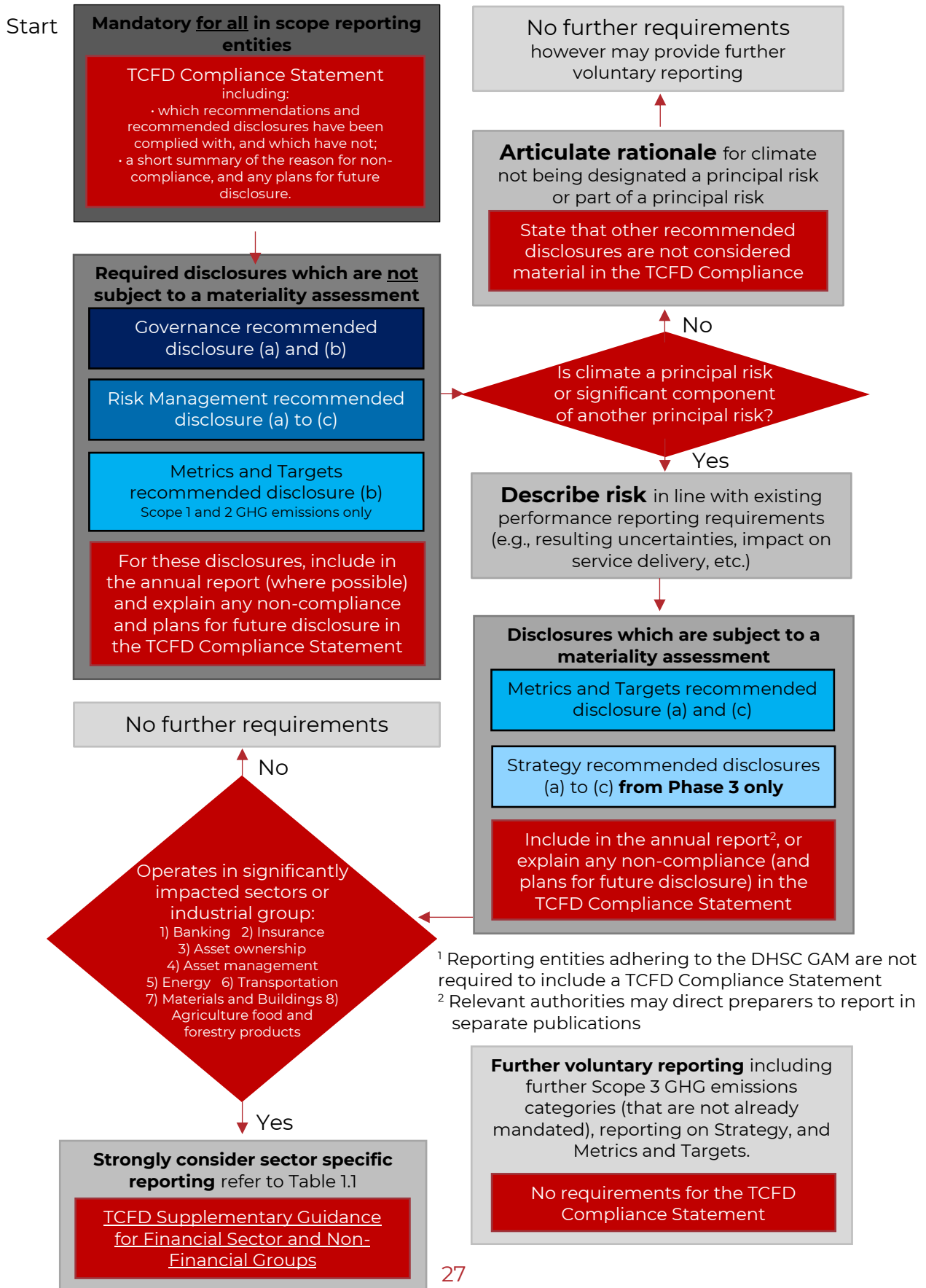
1.56 Other recommended disclosures - Strategy (a) to (c) and Metrics and Targets (a) and (c) – are subject to a materiality assessment. Where the reporting entity does not consider climate as a principal risk, these recommended disclosures are not considered material. In such instances, reporting entities must provide appropriate explanations in their TCFD Compliance Statement to ensure this is clear to annual report users – in line with this application guidance.

1.57 There may be capacity, data availability or other challenges, which hinder an in-scope reporting entity from disclosing this information in the reporting period. Any such non-compliance should be explained in the TCFD Compliance Statement.

1.58 Reporting entities should avoid applying a checklist approach to materiality and should consider the needs of users when judging what is material¹⁵. Irrelevant or superfluous information which is either common knowledge or fails to add value to the primary user’s understanding of the organisation reduces the annual report’s effectiveness. Please refer to [Figure 1.3 Summary of disclosure requirements](#).

¹⁵ April 2019: Government Financial Reporting Review: www.gov.uk/government/publications/the-government-financial-reporting-review

Figure 1.3 Minimum requirements for in-scope reporting entities



Broader considerations

1.59 The government and wider public sector bodies act in the public interest. Public sector bodies have wide-reaching responsibilities with respect to the UK population, the environment, and the economy. These duties may be implicit or laid out in policy, regulation, or statute.

1.60 Organisations should consider the wider impact of climate-related risks on their broader responsibilities, as well as their direct objectives and priority outcomes.

Sphere of influence

1.61 Public sector bodies may have fiscal, legislative, or regulatory powers to influence the wider ecosystem in which they operate. Primary users of public sector annual reports are likely to be interested in the broader risk environment, which may extend to the impact on the UK economy, the public and the environment relevant to the entity. Consequently, while the TCFD recommendations are entity-level disclosures, organisations should consider external impacts to their wider organisational strategy.

1.62 When considering how to implement TCFD recommendations, reporting entities must apply judgement in setting relevant boundaries. Their breadth will depend on the specific circumstances (e.g., their activities, relationships, stakeholders, etc.). The disclosure is likely to develop over successive iterations, as the organisation's understanding on this topic deepens.

1.63 For performance reporting, the Chartered Institute of Public Finance and Accountancy (CIPFA)¹⁶ set out an example approach for considering the components of 'materiality' for public sector organisations, which may be useful:

- **Impact** - information on the positive and negative impacts of the organisation on the global achievement of the UN Sustainable Development Goals (SDG).
- **State of the environment/outcomes of policies** - information on the state of the economy, society and the environment under the organisation's jurisdiction and other information on policy outcomes.
- **Outcomes/effectiveness** - of programmes and policies.
- **Value creation** - information concerning the creation of long-term value for the organisation, economy, society and the environment.
- **Financial accountability/value for money** - information concerning spend on social, economic and environmental activities.

¹⁶ CIPFA's Public Sector Reporting: time to step up: <https://www.cipfa.org/protecting-place-and-planet/sustainability-reporting>

Information location

Publication

1.64 The TCFD recommends that material climate-related information is included in an organisation's main financial fillings to improve the linkage and consistency between the information included in the narrative/performance reports and the financial statements. For example, where there are material financial impacts driven by climate change or the transition to net zero, these may link to narrative information on management's management of related risks in the future. Integrated annual reports, which include both performance and financial information, encourage better financial management¹⁷.

1.65 The Task Force recommends using separate TCFD reports for certain industries (identified in Table 1.1) where disclosed information is not yet deemed material. While this application guidance is for annual reports, with a focus on information material to primary users, reporting entities may choose to report information which is not yet deemed material in a separate report - signposting where appropriate.

Position

Reporting entities in central government must include the TCFD section in the performance report within their annual reports and accounts - 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.

Interactions with other reporting frameworks

1.66 A variety of different reporting frameworks exist in government and across the wider public sector. This guidance has been designed to complement and enable alignment with existing climate - and sustainability-related reporting frameworks. Applying this guidance does not override existing reporting requirements imposed by statute, regulation or other authority.

1.67 There may be separate annual reporting requirements, which mandate entity-level sustainability-related information - either as part of an integrated report (e.g., within the performance report) or a separately published report.

1.68 Where an entity utilises existing information to fulfil TCFD-aligned disclosure requirements - care should be taken over the scope, boundaries and time period of the information used - ensuring the disclosures are useful and any differences (e.g., on frequency, boundaries) are appropriately explained. Reporting entities are

¹⁷ December 2013: Review of Financial Management in Government:
www.gov.uk/government/publications/review-of-financial-management-in-government

encouraged to align with existing frameworks for comparability and consistency everywhere that is possible, relevant and useful to users.

Cross-referencing within integrated entity-level reports

1.69 Where existing disclosure requirements (in annual reports) align closely with the TCFD's recommended disclosures, reporting entities should apply judgement in deciding whether the TCFD requirements have already been met – including cross-references where applicable.

1.70 Where existing elements of the annual report contribute to the content of the TCFD disclosures, such as content in the Governance Statement contributing to the disclosures under the governance pillar, preparers should cross reference to content elsewhere in the report rather than duplicate content for the basis of the TCFD recommended disclosures. Concise annual reports, which focus on the needs of the primary user and avoid unnecessary or duplicative information, improve overall effectiveness.

1.71 Where cross-referencing is used, the entity may wish to explain the nature of the relationship or interdependency, rather than just highlighting the existence of the relationship or interdependency¹⁸.

Signposting to external reports and publications

1.72 Where separate reporting channels¹⁹ for sustainability-related information and data exist, these are often used by the organisation to assess and manage climate-related issues. This information should be included in the annual report where it is deemed material to the primary user – unless a respective relevant authority has directed otherwise (e.g., by DHSC in the Group Accounting Manual (GAM)).

1.73 The performance report should be considered the top layer of information for primary users. Some users may, however, want a greater level of detail.

1.74 Where external reports contain relevant information for the recommended disclosures, entities are not required to duplicate this information. Entities may choose to signpost to the content of external reports for the basis of compiling these TCFD disclosures.

1.75 This may be useful where in-scope reporting entities prepare additional annual reports for specific purposes (e.g., on officer responsibilities, on funds, etc.). However, the reporting entity must ensure coverage of the relevant material information (e.g., bespoke internal processes, balances) for the related purpose.

1.76 Signposting to external reports enables users to 'drill down' to detailed complementary information that is related to a matter in a particular component, but that is not necessary to effectively communicate the material or mandated information. Signposting to

¹⁸ FRC, July 2018, Guidance on the Strategic Report: <https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/annual-corporate-reporting/guidance-on-the-strategic-report/>

¹⁹ This may include the GGCs, NHS Greener plans for example.

such information should make clear that it does not form part of the component from which it is signposted. Note, however, that excessive signposting can reduce the clarity of the report.

Reporting boundaries

Risk reporting and more qualitative requirements

1.77 While TCFD is an entity-level framework, users of annual reports need to understand the wider context for climate-related risks and opportunities. Consequently, reporting entities should consider the risks and opportunities which it can be significantly impacted by or have a significant impact on. Nonetheless, reporting boundaries for performance reporting are often less well defined, compared to IFRS Accounting Standards.

1.78 Climate-related information should provide a holistic view across a group, considering the principal climate-related risks from the point of view of the reporting entity. For example, central government departments should apply their own risk appetite and risk management procedures to determine the relative significance of climate-related risks to the group.

1.79 Where in-scope reporting entities are unable to report for their group, they should provide an explanation.

Metrics, targets, financial information and other quantitative requirements

1.80 Where disclosure requirements are quantitative in nature (e.g., metrics and targets, impacts of climate on financial planning, performance and position, etc.), the reporting boundary should be set at the reporting entity level. However, quantitative information on the wider group the reporting entity is a part of may be appropriate (where possible), where there is a significant impact on the reporting entity (e.g., for future funding).

1.81 For Metrics and Targets recommended disclosures, the reporting boundary should be set at the reporting entity level (e.g., for central government in line with the GGCs). However, where existing reporting framework consolidate information, this may not be possible. For example, NHS England provide emissions estimates for the NHS in England - consequently signposting to the external report is more appropriate. A clear explanation of the reporting boundary should be provided for quantitative information, where this is not at an individual entity level.

Assurance

1.82 As the TCFD-aligned disclosures are within the annual report, it is within the scope of the auditor's opinion on 'other information'. Under auditing standards²⁰, the auditor reads other financial and non-financial

²⁰ Under ISA 720, the auditor provides a negative opinion on the other information.

information and considers whether it is materially inconsistent with the financial statements, the knowledge they acquired through the audit, or otherwise appears to be materially misstated.

1.83 However, the TCFD-aligned disclosures, in their own right, are not subject to an assurance opinion from the auditor. The auditor will not perform audit procedures on the underlying TCFD information.

1.84 Across the public sector, the accountable officer (e.g., Accounting Officer or Chief Financial Officer) takes ultimate responsibility for what is included in annual reports. Appropriate internal review processes and assurance should be in place to ensure the accuracy of the information included – including for TCFD-related disclosures.

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 in assessing the adequacy and effectiveness of an organisation's board to oversee, evaluate and manage climate-related issues.

Materiality

2.3 In-scope bodies should provide the recommended disclosures for Governance – refer to para. 1.47 to 1.55. The level of detail provided remains at the discretion of preparers but should meet the needs of the primary users of annual reports.

Applicability

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

2.5 While the Code of Good Practice²¹ has embedded the 'department board model' into central government departments; 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.

²¹ www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017

Recommended disclosures

2.6 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.

2.7 This section outlines the TCFD recommended disclosures (in red boxes) for Governance, with the 'Supporting guidance from TCFD' (in red). The supporting TCFD guidance includes minor public sector interpretations and adaptations (in italics) and is explained in Annex A.

2.8 Public sector considerations and 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 and identified good practice from the TCFD review on private companies conducted by the Financial Conduct Authority²² and Financial Reporting Council (FRC)²³.

Recommended disclosure for Governance (a)

Board's oversight

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

Supporting guidance from TCFD

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 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.

²² www.fca.org.uk/publications/multi-firm-reviews/tcf-aligned-disclosures-premium-listed-commercial-companies

²³ www.frc.org.uk/getattachment/65fa8b6f-2bed-4a67-8471-ab91c9cd2e85/FRC-TCFD-disclosures-and-climate-in-the-financial-statements_July-2022.pdf

Public sector considerations and further guidance

2.9 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.).

2.10 Where an authority outside of the organisation has set certain climate policies and specific strategies, the disclosure should include a brief description and may signpost to external information.

2.11 [The Orange Book](#) sets out principles for effective risk management and applies to all central government departments and their ALBs. The guidance is likely to be helpful to other public sector bodies, as the same principles generally apply, with adjustments for context. Section A: Governance and Leadership in the 'Orange Book: Management of Risk – Principles and Concepts' 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 from TCFD

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.

Public sector considerations and further guidance

2.12 In this guidance, management refers to those positions an organisation views as executive or senior management positions and that are generally separate from the board. For central government,

this would include the structures described in the Corporate Governance Report – please refer to the [FReM](#).

2.13 In some cases, a reporting entity’s overall climate-related policies and strategies may be determined by another public sector entity, such as departments using their policy setting or regulatory powers. In some cases, organisations may have a governing body within their own structure, or it may be shared with or may be a matrix structure with other public sector bodies. The entity should provide disclosure for a user to understand the structure and level of oversight the governing body provides for the entity specifically and may signpost to external sources.

2.14 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.

2.15 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.

2.16 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.

2.17 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).

2.18 The level of detail and/or cross-referencing to elsewhere in the accounts may depend on the extent to which climate policies and their risks and opportunities are addressed by the same governance processes, controls and procedures detailed elsewhere in the accounts as well as the extent to which specific climate policies and strategies have been established.

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 – refer to [Chapter 4](#).

Chapter 3

Strategy

3.1 An organisation's strategy establishes a foundation against which it can monitor and measure its progress in reaching a desired future state. Strategy formulation generally involves establishing the purpose and scope of the organisation's activities and the nature of its businesses, taking into account the risks and opportunities it faces and the environment in which it operates. A strategy is a plan or approach which is intended to help the entity achieve an objective.

3.2 Stakeholders need to understand how climate-related issues may affect an organisation's operation, strategy, and financial planning over the short, medium, and long term.

Recommendation for Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's operations[†] ~~businesses~~, strategy, and financial planning where such information is material.

3.3 A description of the strategy for achieving an entity's objectives provides insight into its development, performance, position and future prospects. This, alongside existing performance and narrative²⁴ reporting requirements on objectives, puts strategic information into context, allowing stakeholders to make an assessment of its appropriateness.

Overview

3.4 This chapter focuses on the qualitative and quantitative disclosures concerning an organisation's identified climate-related issues and their impacts. This chapter also tackles climate scenario analysis, identifying common anchor points and scenario pathways to be used.

Materiality

3.5 The reporting requirements for the strategy recommended disclosures remain subject to materiality – except where they are

²⁴ For simplicity, this document refers to narrative and performance reports collectively as performance reports throughout this guidance.

specifically mandated by other reporting requirements (i.e., in regulation or legislation, or by relevant authorities).

3.6 Organisations may utilise financial materiality applied to the accounts in considering whether financial information is material. Organisations must, however, consider the importance of the narrative information to primary users when assessing whether to include climate-related information.

Applicability

3.7 This aligns with existing risk reporting in annual accounts across the UK public sector. For central government, the FReM requires reporting entities to disclose information on their principal, new and emerging risks; how they have and are likely to change; and their impact on the organisation's performance and delivery at present and in the future. Reporting entities also provide narrative information on achieving strategic objectives. Similar risk reporting exists across the UK public sector.

Principal, new and emerging risks

3.8 Understanding climate-related risks is essential for understanding the resilience of an organisation's strategy to climate change and the transition to net zero. This section draws from existing risk reporting for annual reports – on principal, new and emerging risks. Information on the organisation's processes for identifying, assessing, and managing climate-related risks is covered in [Chapter 4](#).

Risks identification and assessment

3.9 For risk assessments, organisations should consider the potential impact and probability of the related events, and the timescale over which they may occur.

Climate as a (standalone) principal risk

3.10 A principal risk is a risk or combination of risks that can seriously affect the performance, future prospects or reputation of an organisation.

3.11 In deciding which risks are principal risks, the board should focus on those risks that, given the organisation's current position, could result in events or circumstances that might threaten the organisation's operational model, future performance, funding and reputation, irrespective of how they are classified or from where they arise.

3.12 The number of principal risks should generally be relatively small. While risk registers may contain a comprehensive list of risks that may affect the organisation, primary users require an overview of those risks which the board considers as the most important to the organisation.

Climate as a significant component of a principal risk

3.13 Climate risk may be a standalone risk category or considered within other existing risk categories. Where climate change (or the transition to net zero) is a significant component of a principal risk, the information will be material to primary users – requiring recommended disclosures for Metrics and Targets a) and c); and Strategy a) to c).

Climate as a new or emerging risk

3.14 Emerging risks include risks whose impact and probability are difficult to assess and quantify at present, but which could affect the organisation in the future²⁵.

3.15 While climate risk is well established, climate-related risks will continue to emerge over time. Emerging risks constantly change, can materialise quickly, and can significantly affect the organisation and its operations. Procedures must be in place for continuous monitoring of these risks to allow the organisation to adapt or develop appropriate actions.

Climate as a cross-cutting risk

3.16 The impacts of climate change are broad and wide reaching. Climate may not be deemed to be a principal risk, but instead considered a cross cutting risk – significantly impacting a number of other risks across a range of areas.

Risk reporting

3.17 Under existing performance reporting requirements, UK government and public sector bodies are required to report on an organisation's principal risks, often with additional disclosure requirements on new and emerging risks²⁶.

3.18 Significant changes in these risks such as a change in likelihood, probable timing, or possible effect - or the emergence of new risks - should be highlighted and explained. This might include a description of the likelihood of the risk, an indication of the circumstances under which the risk might be most relevant to the entity, and its potential impact.

3.19 Climate-related risks often develop and evolve over longer time horizons. Similarly, the government and public sector usually operate over long-time horizons, working to deliver longer term outcomes. Reporting should consider how these risks are likely to intensify over time.

Climate as a principal risk

²⁵ Definitions and guidance on principal, new and emerging risks draw from the FRC's guidance on the Strategic Report, The Code, other guidance. These are used to develop public sector performance and narrative reporting.

²⁶ UK public sector reporting requirements have been driven by Section 414CB of the Companies Act 2006 which requires a description of the principal risks relating to environmental matters, including how an entity manages the principal risks.

3.20 If climate change (or the transition to net zero) is identified as a principal risk for the organisation, then the reporting entity must describe the risk, including related uncertainties facing the organisation.

3.21 Where a climate-related risk could significantly impact the delivery of an organisation's objectives and outcomes, disclosure should provide a clear explanation of the risk and potential impact. Disclosures should provide users with information which is specific to the organisation's circumstances.

3.22 Central government bodies, specifically, are required to disclose how principal risks have changed over the reporting period, their impact on priority outcomes and delivery, and any mitigation strategies applied, as well as disclosure of any emerging risks and their likely impact on performance – refer to the [FReM](#).

3.23 An explanation of how the principal risks and uncertainties are managed or mitigated should also be included to enable primary users to assess the impact on the future prospects of the organisation. This is covered in more detail in [Chapter 4](#).

Climate as a significant component of another principal risk

3.24 Where climate change (or the transition to net zero) forms a significant component of another principal risk, then the reporting entity must describe its impact on the other principal risk, using cross-referencing in annual report where appropriate.

Climate as a new or emerging risk

3.25 Reporting entities must apply new and emerging risk reporting requirements for climate, where relevant,. Central government bodies are required to provide information on how the likelihood or possible impact of new and emerging risks has changed.

Climate as a cross cutting risk

3.26 Reporting entities should provide relevant information to primary users to understand the impact of climate change as a cross cutting risk.

3.27 In such circumstances, organisations may choose to apply existing risk management procedures – without setting bespoke climate-related procedures. The integration of these cross-cutting risks should be described in Risk Management recommended disclosure c) – refer to [Chapter 4](#).

Risk prioritisation

3.28 Reporting entities should clearly set out the relative importance of climate-related risks, compared both with each other and other non-climate risks. They should also set out their assumptions for assessing and prioritising the risks, including judgements on what is material - refer to Strategy recommended disclosure a).

Climate as principal risks

Climate as a principal risk

Where climate change (or the transition to net zero) is a principal risk, the reporting entity must describe the risk in line with existing performance reporting requirements (e.g., impact on objectives and outcomes, resulting uncertainties, impact on service delivery, etc.).

Climate as a significant component of a principal risk

Where climate change (or the transition to net zero) is as a significant component of another principal risk, appropriate information must be included for primary users to understand the impact - with cross-referencing, where appropriate.

Climate not a principal risk or significant component of a principal risk

Where climate is not designated a principal risk (or part of a principal risk) reporting entities must articulate their rationale and comply with other relevant risk reporting requirements (i.e., on new or emerging risks).

The risk reporting requirements first introduced in Phase 2 in Chapter 4, have been moved to this chapter and expanded to include further guidance on principal risk considerations. This information links and provides an introduction to Strategy recommended disclosure a) and b) on time horizons and impacts respectively.

Question 1 - *Is the Principal, new and emerging risk section sufficiently clear? Does the guidance on risk assessments, risk reporting and risk prioritisation adequately set out the expectation and disclosure requirements, and support preparers? If not, what further detail should be added?*

Recommended disclosures

3.29 This section sets out the TCFD's recommended disclosures for Strategy (in red boxes), with 'Supporting guidance from TCFD' (in red).

3.30 Interpretations or adaptations have been made to the Strategy recommended disclosures c) and the 'Supporting guidance from TCFD' for Strategy recommended disclosures (a) to (c). Updated references (denoted in italics) have been made to recommended disclosures. The 'Public sector considerations and further guidance' sections provide additional information to annual report preparers.

Recommended disclosure for Strategy (a)

Time horizons

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

Supporting guidance from TCFD

Organisations should provide the following information:

- a description of what they consider to be the relevant short-, medium-, and long-term time horizons, taking into consideration the useful life of the organisation's assets or infrastructure and the fact that climate-related issues often manifest themselves over the medium and longer terms;
- a description of the specific climate-related issues potentially arising in each time horizon (short, medium, and long term) that could have a material financial impact on the organisation; and
- a description of the process(es) used to determine which risks and opportunities could have a material financial impact on the organisation.

Organisations should consider providing a description of their risks and opportunities by sector and/or geography, as appropriate. In describing climate-related issues, organisations should refer to Tables A1.1 and A1.2 in Annex A.

Public sector considerations and further guidance

3.31 Reporting entities that have identified climate as a principal risk (or part of a principal risk), should describe the related risks (and opportunities) - noting whether they are expected to occur in the short, medium, and/or long-term time horizons.

Climate-related issues

3.32 This chapter covers the assessment, monitoring, management and reporting of climate-related risks and opportunities – collectively referred to as 'climate-related issues'.

3.33 Strategy recommended disclosures a) - and b) covered in the next subsection - should draw from and link to the existing risk reporting on principal, new and emerging risks addressed earlier in this chapter – refer to para. 3.8 onwards.

3.34 Assessing climate-related opportunities enables the development of proactive strategies that enhance the resilience of the organisation. Reporting entities must provide information on climate-related opportunities and how they are managed, ensuring information is fair, balanced, and understandable. Balanced disclosure should focus on climate-related opportunities that are material – considering their likelihood, timing and potential impact on the organisation, its

operations, its finances and strategy. The relative significance of the climate-related opportunity should also be clear to annual report users.

Time horizons

3.35 In addition to considering the severity and likelihood of climate-related risks, opportunities, and impacts, organisations should also consider their timing.

3.36 The time horizons applied to Strategy recommended disclosure a) should align with the organisation's existing strategic and business planning time horizons, enabling improved integration into existing risk management processes and strategy, and consistency across the annual report.

3.37 Organisations tailor business and strategic planning time horizons based on entity-specific factors. When setting time horizons for Strategy recommended disclosure a), reporting entities should consider the useful life of assets and infrastructure, noting that climate-related issues often manifest themselves over the medium- and long-term.

3.38 Climate scenarios analysed for Strategy recommended disclosure c) supports longer-term horizon scanning for climate-related risks - refer to para. 3.57.

We are not proposing adaptations to Strategy recommended disclosure a) or the Supporting Guidance from TCFD. However, the public sector considerations and further guidance adds further clarification and details on time horizons, impacts with respect to broader public sector considerations, and opportunities.

Question 2 a) - *Do you support our approach to not adapt Strategy recommended disclosure a) or the Supporting Guidance from TCFD? If not, why not?*

Question 2 b) - *Is the additional detail on time horizons, impacts with respect to broader public sector considerations, and climate-related opportunities sufficiently clear? Do you support this public sector interpretation? If not, why not?*

Recommended disclosure for Strategy (b)

Impacts

Describe the impact of climate-related risks and opportunities on the organisation's ~~businesses~~ operations[†], strategy, and financial planning

Supporting guidance from TCFD

Building on recommended disclosure (a), organisations should discuss how identified climate-related issues have affected their operations[†] ~~businesses~~, strategy, and financial planning.

Organisations should consider including the impact on their operations[†] ~~businesses~~, strategy, and financial planning in the following areas:

- Products and services
- Supply chain and/or value chain
- Adaptation and mitigation activities
- Investment *and grants*[†] in research and development
- Operations (including types of operations and location of facilities)
- Acquisitions or divestments
- Access to capital

Organisations should describe how climate-related issues serve as an input to their financial planning process, the time period(s) used, and how these risks and opportunities are prioritized. Organisations' disclosures should reflect a holistic picture of the interdependencies among the factors that affect their ability to create value over time.

Organisations should describe the impact of climate-related issues on their financial performance (e.g., income, expenditure[†] ~~revenues, costs~~) and financial position (e.g., assets, liabilities). If climate-related scenarios were used to inform the organisation's strategy and financial planning, such scenarios should be described.

Organisations that have made GHG emissions reduction commitments, operate in jurisdictions that have made such commitments, or have agreed to meet *primary users*[†] ~~investor~~ expectations regarding GHG emissions reductions should describe their plans for transitioning to a low-carbon economy, which could include GHG emissions targets and specific activities intended to reduce GHG emissions in their operations and value chain or to otherwise support the transition.

Non-financial grouping guidance

Organisations should consider discussing how climate-related risks and opportunities are integrated into their:

1. current decision-making and
2. strategy formulation, including planning assumptions and objectives around climate change mitigation, adaptation, or opportunities such as:
 - Research and development (R&D) and adoption of new technology.
 - Existing and committed future activities such as investments, restructuring, write-downs, or impairment of assets.
 - Critical planning assumptions around legacy assets, for example, strategies to lower carbon-, energy-, and/or water-intensive operations.

- How GHG emissions, energy, and water and other physical risk exposures, if applicable, are considered in capital planning and allocation; this could include a discussion of major acquisitions and divestments, joint-ventures, and investments in technology, innovation, and new business areas in light of changing climate-related risks and opportunities.
- The organisation's flexibility in positioning/repositioning capital to address emerging climate-related risks and opportunities.

Adaptations and interpretations

3.39 Certain public sector interpretations have been made to Strategy recommended disclosure b) and the Supporting Guidance from TCFD in line with Table A.3 in Annex A. The text includes the tracked changes with a + symbol to identify the modified word.

Public sector considerations and further guidance

3.40 Reporting entities that have identified climate as a principal risk, must describe the potential impact pathways of the climate-related risks - identified in Strategy a) – on their organisation, its strategy, and financial planning. Similarly, organisations with climate-related opportunities should describe impacts, while applying an appropriate materiality filter, considering likelihood, impact, and effect.

3.41 While management and those charged with governance may identify, assess, and manage a long list of climate-related risks and opportunities, being selective in which to report, allows the annual report to demonstrate management's view on their relative importance and give the most useful information generally.

3.42 Both opportunities and risks are likely to be scrutinised by primary users. It is important that the annual report is balanced, with the right focus, and not overly optimistic.

Climate-related impacts

3.43 The strategy of government or public sector bodies often extends beyond their operations and assets. Reporting bodies that are responsible for the provision of public goods and services, or the management of infrastructure, must consider the associated climate-related impacts.

3.44 Reporting bodies in policy setting or regulatory roles can have a significant influence on the economy, the environment, and people - through legislation, regulation, guidance, grants, subsidies, taxes and other levers. These interventions, and their effectiveness, may be impacted by climate-related issues. Where deemed material, these must be disclosed in the annual report, applying appropriate cross-referencing.

3.45 Climate change (and the transition to net zero) may impact a policy setter or regulator's strategy – including the effectiveness and outcomes of the bodies' policies and programmes.

3.46 Government and public sector bodies may have committed to goals and objectives (e.g., UN SDGs) outside of their direct remit, or been committed to these by a higher authority - refer to [broader considerations](#).

3.47 Climate-related issues should be considered in the context of existing performance reporting, and their impact on the organisation's wider goals and objectives - where their cross-cutting impact is deemed material for primary users.

Quantification

3.48 Quantifying the financial impacts of climate-related issues enables better financial planning, improves the organisations' understanding, and supports decision makers. Nonetheless, the unpredictability of future impacts – likelihood, effect, and timing - drives uncertainty.

3.49 Organisations are encouraged to disclose quantified financial information, where available, alongside any significant estimates and assumptions that have been used. Due to the level of uncertainty for more distant time horizons, annual reports may use ranges or qualitative scales of severity (e.g., likely financial impact, its duration and the relative significance to the organisation)²⁷.

3.50 High-quality disclosure should be open with users on the level of uncertainty behind any quantitative information and assumptions included in estimates. The comply or explain basis for disclosure may be used where appropriate (e.g., commercial sensitivity). Reporting entities should use their own judgement in making these assessments.

²⁷ An example of scales of severity could be: low, within normal manageable risks in year; medium, with significant financial risks contained with a year or with significant financial impact; large, with significant financial impacts over multiple years; very large, as existential for the organisation.

We are not proposing adaptations to Strategy recommended disclosure b) or the Supporting Guidance from TCFD. Certain public sector interpretations have been added in line with table A.3 in Annex A. The public sector considerations and further guidance adds further clarification on quantification.

Question 3 a) - *Do you support our approach to not adapt Strategy recommended disclosure b) or the Supporting Guidance from TCFD? Do you support the interpretations for Strategy recommended disclosure b) and the Supporting Guidance from TCFD? If not, why not?*

Question 3 b) - *Is the additional clarification and guidance on impacts with respect to broader public sector considerations, and quantification is sufficiently clear? If not, why not? Do you believe further guidance is required in this sub-section? If so, what?*

Recommended disclosure for Strategy (c)

Scenario analysis

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower and a 4°C scenario[†].

Supporting guidance from TCFD

Organisations should describe how resilient their strategies are to climate-related risks and opportunities, taking into consideration a transition to a low-carbon economy consistent with a 2°C or lower and a 4°C scenario and, where relevant to the organisation, scenarios consistent with increased physical climate-related risks.

Organisations should consider discussing:

- where they believe their strategies may be affected by climate-related risks and opportunities;
- how their strategies might change to address such potential risks and opportunities;
- the potential impact of climate-related issues on financial performance (e.g., income, expenditure[†] revenues, costs) and financial position (e.g., assets, liabilities); and

- the climate-related scenarios and associated time horizon(s) considered.

Refer to Section D in the Task Force's report for information on applying scenarios to forward-looking analysis

Non-financial groups guidance

~~Organisations with more than one billion U.S. dollar equivalent (USDE) in annual revenue should consider conducting more robust scenario analysis to assess the resilience of their strategies against a range of climate-related scenarios, including a 2°C or lower scenario and, where relevant to the organisation, scenarios consistent with increased physical climate-related risks.~~

Organisations should consider discussing the implications of different policy assumptions, macro-economic trends, energy pathways, and technology assumptions used in publicly available climate-related scenarios to assess the resilience of their strategies.

For the climate-related scenarios used, organisations should consider providing information on the following factors to allow ~~investors~~ *primary users* and others to understand how conclusions were drawn from scenario analysis:

Critical input parameters, assumptions, and analytical choices for the climate-related scenarios used, particularly as they relate to key areas such as policy assumptions, energy deployment pathways, technology pathways, and related timing assumptions.

Potential qualitative or quantitative financial implications of the climate-related scenarios, if any.

Adaptations and interpretations

3.51 Certain public sector interpretations have been made to Strategy recommended disclosure c) and the Supporting Guidance from TCFD in line with Table A.3 in Annex A. The text includes the tracked changes with a + symbol to identify the modified word.

Global Warming Levels

3.52 The TCFD Strategy recommended disclosure c) and Supporting Guidance from TCFD has been adapted from 'a 2°C or lower scenario' to 'a 2°C and a 4°C scenario'. This adaptation aligns required scenario analysis with existing UK government climate risk frameworks based on the Climate Change Committee's (CCC's) recommendation²⁸. This change is driven by a shift in focus from transitional risks to physical risks.

3.53 Physical risks are more relevant for government and public sector bodies, who take on the systemic risk of climate change.

²⁸ <https://www.theccc.org.uk/publication/proposed-methodology-for-the-ccra4-advice/>

Revenue thresholds for conducting robust scenario analysis

3.54 The 'Supporting Guidance from TCFD' has been adapted to remove the threshold of one billion U.S dollar equivalent (USDE) in revenue for organisations to consider conducting more a robust scenario analysis. This application guidance does not set a threshold for more robust scenario analysis, instead setting out specific factors for organisations to consider (e.g., infrastructure, assets, essential service provisions), as well as guidance on quantitative-vs-qualitative analysis.

3.55 Overall size thresholds in terms of defining which bodies in central government are required to follow the TCFD application guidance generally were introduced to align with the UK private sector guidance on climate-related financial disclosure – refer to para. 1.21.

Public sector considerations and further guidance

3.56 Where climate is identified as a principal risk (or a significant component of another principal risk), the organisation must apply climate scenario analysis to test the strategic resilience of the organisation to different future plausible climate states - or explain non-compliance.

We are proposing adaptations and interpretations to the Strategy recommended disclosure c) on climate scenario analysis.

We have removed the one billion U.S dollars size threshold on revenue beyond which organisations must consider robust scenario analyses. This application guidance does not set a threshold for more robust scenario analysis, instead setting out specific factors for organisations to consider (e.g., infrastructure, assets, essential service provisions), as well as guidance on quantitative vs qualitative analysis.

Question 4 - *Are you supportive of the adaptation to Strategy recommended disclosure c) to remove the revenue size thresholds consideration for robust scenario analysis; and instead apply this guidance in deciding the level of detail for climate scenario analysis? Do you believe further guidance is needed in this section? If so, what?*

The adaptation on the Global Warming Levels to consider from 'a 2°C or lower scenario' to 'a 2°C and a 4°C scenario' has been addressed later in Question 8.

Climate scenario analysis

3.57 The Task Force defines climate scenario analysis as the process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. Scenarios allow an organisation to explore and develop an understanding of how the physical and transition risks of climate change may impact its businesses, strategies, and financial performance over time.

3.58 A scenario describes a path of development leading to a particular outcome. Scenarios are not intended to represent a full description of the future or to illustrate the full range of uncertainty, but rather to highlight central elements of a possible future and to draw attention to the key factors that will drive future developments. They are hypothetical constructs, not forecasts, predictions or sensitivity analyses.

3.59 For Strategy c), para. 1.3.2 of [TCFD's Guidance on Scenario Analysis](#) states that for time horizons organisations should...

...challenge their thinking about traditional planning horizons, which are often too short. Scenario time horizons are typically longer than many business planning horizons. Scenario time horizons that are too short may result in simple extrapolations of current thinking and trends, and therefore not reveal the information needed to assess the resilience of the organisation's climate-related strategy.

In setting time horizons for its scenario analysis, an organisation should consider:

- *time horizons that are compatible with the organisation's (1) capital planning and investment horizons and (2) the useful life of major organisation assets and*
- *time horizons that are harmonized or anchored with those of national and international climate policy communities (e.g., 2030 and 2050). Harmonizing company scenario time horizons to key years and the cycle of the climate policy community can provide an important anchor to, and context with, global climate scenarios, as well as enhance comparability.*

3.60 To simplify implementation of TCFD-aligned disclosure across government and the public sector, common anchor points (or reference periods or points) for time horizons and climate scenario pathways have been identified.

3.61 Reporting entities should adopt these anchor points and pathways in their analysis; unless there is a suitably good reason to deviate. The comply or explain basis for disclosure allows organisations to apply alternative anchor points and pathways, as long as this is explained.

Reference periods

3.62 Using common reference periods for climate scenario analysis drives consistency and enables comparability. This guidance identifies

common reference periods to be used (e.g., for climate model data), and supports organisations to set their own near term reference periods.

3.63 The Task Force challenges organisations to consider longer term time horizons compared to typical business and strategic planning. Government’s responsibilities for stewardship and service provisions necessitate longer-term strategic thinking. The government and public sector owns, manages and regulates significant assets and infrastructure with lengthy useful economic lives.

3.64 Reporting entities that are conducting climate scenario analysis must use at least three different reference periods, including:

- One or two reference periods (or points) for near-term analysis - mandatory for all reporting entities and selected by the organisation.
- mid-century (2050s) – mandatory for all reporting entities.
- end of century (2080s-2100) – mandatory for reporting entities that:
 1. own, manage or regulate significant long-life assets or infrastructure; or,
 2. deliver essential²⁹ public goods and services which are likely to be significantly impacted by climate change; or,
 3. set longer term policy which is, or regulate industries/sectors that are, likely to be significantly impacted by climate change.

Common reference period – Mid-century (2050s)

3.65 This application guidance recognises 2050s as a common reference period for climate scenario analysis. This is grounded in national and international climate policy communities (i.e., the Paris Agreement³⁰, the UN’s Intergovernmental Panel on Climate Change (IPCC)³¹), the national statutory net zero target of 2050 (i.e., Climate Change Act 2008). The CCC also identifies the 2050s in current and proposed Climate Change Risk Assessment (CCRA) methodologies. These are used in climate risk assessment frameworks across the public and private sector (e.g., CCRA, Adaption Reporting Power).

Common reference period – End of the century (2080s-2100)

3.66 Most significant physical climate risks are expected to materialise towards the end of the century.

3.67 Reporting entities responsible for significant long-life assets and infrastructure – or delivering essential public goods and services which

²⁹ Essential good and services include those which are essential for the maintenance of societal or economic activities, or that the UK public rely upon, on a daily or near daily basis.

³⁰ <https://www.un.org/en/climatechange/paris-agreement>

³¹ <https://www.ipcc.ch/>

are likely to be affected - must analyse and report on the impact of climate change for the end of the century (2080s-2100) reference point.

3.68 The reference period for end of the century of 2080s to 2100 has been left relatively open as different sets of data may group and aggregate over longer time horizons – particularly where there is more uncertainty around outcomes.

Near term analysis

3.69 Reporting entities should set their own near term reference periods (or points) for climate scenario analysis based on entity-specific factors. These will likely overlap with existing business and strategic planning time horizons – and other TCFD recommended disclosures.

3.70 Organisations that report under other climate risk frameworks may also choose to align their near-term analysis with common reference periods. The Climate Change Committee's (CCC's) CCRA methodology identifies 2030s as a reference period to report against.

Setting common anchor points in the application guidance supports preparer in their implementation decisions and reduces the cost and burden – using the same data sets, and applying similar models and approaches.

Question 5

Are you supportive of the application guidance setting a common reference periods of mid-century (2050s)? If not, why not? Which alternative reference period (or anchor point) would you suggest, if any?

Question 6 a)

Are you supportive of the application guidance setting a common reference period of the end of the century (2080-2100)?

Question 6 b)

Are you supportive of this reference period, only being required where reporting entities:

- 1. own, manage or regulate significant long-life assets or infrastructure; or,*
- 2. deliver essential public goods and services which are likely to be significantly impacted; or,*
- 3. set longer term policy which is, or regulate industries/sectors that are, likely to be significantly impacted.*

Do you support the chosen test characteristics. If not, why not? What alternative text characteristics would you suggest? Is this guidance sufficiently clear for reporting entities? If not, why not?

Question 7 – *Are you supportive of mandating a total of three reference periods (or points)? Are you supportive of near term reference periods (or points) being selected by the organisation? Is this guidance sufficiently clear? If not, why not?*

Pathways

3.71 This section explores climate scenario pathways. Reporting entities conducting climate scenario analysis must use the two global warming level pathways set out in the CCC's CCRA methodology (refer to para. 3.73 to 3.77) - or explain where different scenarios have been used and why (e.g., alternative physical, socio-economic or transition pathways).

3.72 As a baseline these should align with current government policy. When new government policy, legislation and regulation is enacted, reporting entities must consider their impact both on the organisation and its strategy using scenario analysis.

Global Warming Levels

3.73 Global Warming Levels facilitate the exploration of future climate projections with a simple framing of *what does the climate look like in a world where global temperatures are 'x' degrees above the pre-industrial period (typically 1850-1900)?*

3.74 The use of warming levels holds substantial policy significance. International climate policies frequently set agreements and targets based on specific warming thresholds to be avoided (e.g., the Paris Agreement's aim for global temperatures to stay below 1.5°C). UK climate policy reflects this approach, with the CCC³² recommending that the UK Government prepare for 2°C of global warming and evaluate the risks associated with 4°C.

3.75 Global warming levels are affected by international action – not just action at a UK level. Even if the UK meets its net zero target, the response globally will have a much more significant impact on carbon concentrations (and warming levels).

3.76 When conducting climate scenario analysis, reporting entities must use the temperature pathways set out in the CCC's CCRA³³ methodology. The proposed CCRA4 methodology has been included in Table A.4 in Appendix A.

3.77 Reporting entities are encouraged to use the most recent CCRA methodology published on the [CCC website](https://www.theccc.org.uk/). Where a previous CCRA methodology has been used by the reporting entity in their most recent assessment, these may be used for the analysis. Reporting entities must state the warming pathways used in the analysis and/or signpost to the methodology applied.

3.78 For certain hazards that do not increase at the same rate as global warming levels, a bespoke approach may be needed. For example, the response time for sea level rise is on the order of centuries, with some level of increase locked-in for the next century and beyond - even if emissions rapidly reach net zero. Therefore, sea level rise is very time dependent as well as temperature dependent. Aligning scenario analysis with national frameworks and leveraging from existing data sets and internal processes, avoids duplication of effort and guidance, and applies a consistent approach across the public sector.

Alternative physical and socio-economic pathways

3.79 Reporting entities may choose to use additional or different pathways or scenario definitions, where deemed appropriate - with

³² <https://www.theccc.org.uk/>

³³ The CCC will deliver their fourth independent assessment in 2026. Organisations may use

appropriate explanation. For example, this could be appropriate where the organisation operates in an industry or sector which uses specific scenario definitions.. The related disclosure must include the details of which scenario has been used and why, alongside any key assumptions. More qualitative scenario approaches are suited to exploring very uncertain, high impact events at certain levels of global warming.

3.80 The IPCC defines climate scenarios in terms of pathways for emissions and socioeconomic factors - with either Representative Concentration Pathways (RCPs) or Shared Socioeconomic Pathways (SSPs). SSPs set general global socio-economic changes to mitigation and adaptation – rather than UK specific.

3.81 IPCC SSP-RCP scenarios form the base for physical risk analysis, providing information relating to emissions (and associated temperature rise) and socioeconomic development for different levels of temperature rise.

3.82 The UK Climate Projections (UKCP18) provides the most up-to-date and highest resolution locality data to assess how the climate of the UK may change. UKCP is provided by the Meteorological Office (Met Office) using a mix of both global warming levels and RCP emissions pathways. In order for entities to easily make use of the full range of UKCP data, warming scenarios with aligned RCP emissions pathways – may allow for better alignment with other relevant government climate-related frameworks (e.g., Adaption Reporting Power).

3.83 Furthermore, where different geographical (e.g., overseas impacts) or industry specific data is needed (or more appropriate), reporting entities may choose to use or combine data sets –explaining this in the annual report disclosure.

3.84 When government policy, legislation and regulation is enacted, reporting entities must consider their impact both on the organisation and its strategy using scenario analysis.

Question 8 - *Are you supportive of aligning climate scenario analysis with the global warming level/temperature pathways set out by the Climate Change Committee (2°C and 4°C end of century)? If not, why not? Do you believe further guidance is needed in this section - including on alternative physical and socio-economic pathways? If so, what?*

Transition pathways

3.85 Transition pathways offer a different type of analysis for reporting entities to consider, focusing on the risks an entity faces with the transition to net zero. Where entities have a material exposure to transition risk, they should consider whether exploring low and high transition risk scenarios is more useful for users - both decision makers

and primary users. Appropriate explanation must be provided alongside these disclosures.

3.86 Where reporting entities have committed (or been committed by an external authority) to a more ambitious net zero target – the implications of this should be considered as part of their climate scenario analysis.

3.87 Policy-setting and regulatory bodies may choose to include transition scenarios, exploring the impact of different net zero transition pathways on their strategy.

Shadow carbon pricing

3.88 Government has published guidance on estimating future carbon values: [Guidance on estimating carbon values beyond 2050](#) and the Supplementary Green Book Guidance on [Valuing greenhouse gas emissions in policy appraisal](#). Organisations may use these figures in their climate scenario analysis.

3.89 The Department for Energy Security and Net Zero (DESNZ) published [Traded carbon values used for modelling purposes](#) to 2050 - separated into:

- Low Sensitivity - High Fossil Fuel Prices and Low Economic Growth
- Net Zero Strategy Aligned
- High Sensitivity – Low Fossil Fuel Prices and High Economic Growth

3.90 These carbon values may be used to inform transition scenarios - aligning with government policy, with high and low sensitivity to provide alternative scenarios for analysis purposes.

3.91 These values are based on a specific set of assumptions with respect to the policy mix, cost of fuels, level of emissions etc. These values should not be considered as ‘forecasts’ of future prices. The disclosure should explain that these are assumptions - and not in themselves government policy.

3.92 Where different transition scenarios have been explored, reporting entities must provide appropriate caveats on the scenario assumptions - to avoid the disclosures being taken as government policy (or pre-empting government policy).

Question 9 – *Is the guidance on transition pathways and shadow carbon pricing sufficiently clear? Does this support preparers with this type of analysis and disclosure? If not, what further detail should be added? Are there any other potential or perceived risks which have not been addressed in this guidance?*

Frequency

3.93 Scenario analysis should be updated every 3 to 5 years, or more frequently if there are any significant developments or events that mean the assumptions used are no longer suitable (e.g., Machinery of Government changes).

We are proposing that scenario analysis is conducted every 3 to 5 years, or more frequently where the assumptions used no longer apply. This frequency balances the burden on reporting entities with the need for current and accurate data - considering other government processes (e.g., Spending Reviews, Climate Change Risk Assessments).

Question 10 - *Do you support the approach that scenario analysis is conducted every 3 to 5 years, or more frequently where the assumptions used no longer apply? Is the associated guidance sufficiently clear? If not, why not? Do you believe further guidance is needed in this section? If so, what?*

Quantitative vs qualitative analysis

3.94 Quantitative climate scenario analysis is preferred, where possible. However, reporting entities may use qualitative analysis – particularly when considering broader impacts on the economy, the environment and the public. Please refer to paragraph 3.48 and 3.49 for further details.

Question 11 - *Is the Climate Scenario Analysis section sufficiently clear? Does the guidance on transition driven pathways, and support preparers with this type of disclosure? If not, what further detail should be added? Do you believe further guidance is needed in this section?*

Chapter 4

Risk Management

4.1 Risk is the possibility of an event occurring that will have an impact on the achievement of objectives. Effective risk management encompasses a series of coordinated activities strategically designed to oversee and address these risks while upholding internal control within an organisation.

4.2 The UK's public sector exhibits a considerable level of diversity, necessitating a wide spectrum of risk management practices. Overarching principles and concepts as set out in [The Orange Book](#). Organisations must proactively cultivate tailored and efficient risk management, which will naturally vary based on the unique characteristics of the organisation and the dynamics of its operational environment.

4.3 Climate-related risk is the potential negative impact of climate change on an organisation. Climate-related risk management processes and mitigation strategies should be tailored based on their associated severity, likelihood, and timing. These processes are not static and will need to evolve and mature over time, in tandem with shifts in the risk landscape and as management's comprehension of these risks deepens.

Recommendation for Risk Management

Disclose how the organisation identifies, assesses, and manages climate-related risks.

Overview

4.4 This chapter mainly addresses qualitative disclosures surrounding an organisation's processes for identifying, assessing, and managing climate-related risks, and their integration within the organisation's overall risk management.

4.5 For central government, existing FReM requirements for the performance analysis and the governance statement require disclosure on the processes and structures used to identify, evaluate and manage both principal, new and emerging risks. Similar requirements exist across the UK public sector.

Materiality

4.6 In-scope reporting entities must include Risk Management recommended disclosures (a) to (c) in annual reports – on a comply or explain basis - without further application of a materiality filter (para. 1.47 to 1.55).

4.7 This provides annual report users with the information they need to understand the organisation’s overall climate-related risk management process; alongside the board and management’s judgement of whether climate is a principal, new or emerging risk (or component of a principal risk) - or neither.

Applicability

4.8 Risk management terminology and risk classifications will vary across the UK public sector. Annex 4 of The Orange Book provides examples of risk categories which preparers may wish to consider. The Task Force identified and categorised certain climate-related risks as set out in Annex A. Examples of public sector specific climate-related risks are also included in the annex.

Recommended disclosures

4.9 This section sets out the TCFD’s recommended disclosures for Risk Management (in red boxes), with ‘Supporting guidance from TCFD’ (in red).

4.10 No interpretations or adaptations have been made to the ‘Supporting guidance from TCFD’ for Risk Management recommended disclosures (a) to (c). Updated references (denoted in italics) have been made to recommended disclosure (b). The ‘Public sector considerations and further guidance’ section provides additional information to annual report preparers - based on common findings and good practice (refer to para. 2.8).

Recommended disclosure for Risk Management (a) Risk identification and assessment

Describe the organisation’s processes for identifying and assessing climate-related risks.

Supporting guidance from TCFD

Organisations should describe their risk management processes for identifying and assessing climate-related risks. An important aspect of this description is how organisations determine the relative significance of climate-related risks in relation to other risks.

Organisations should describe whether they consider existing and emerging regulatory requirements related to climate change (e.g., limits on emissions) as well as other relevant factors considered.

Organisations should also consider disclosing the following:

- processes for assessing the potential size and scope of identified climate-related risks and
- definitions of risk terminology used or references to existing risk classification frameworks used.

Recommended disclosure for Risk Management (b)

Risk management

Describe the organisation's processes for managing climate-related risks.

Supporting guidance from TCFD

Organisations should describe their processes for managing climate-related risks, including how they make decisions to mitigate, transfer, accept, or control those risks. In addition, organisations should describe their processes for prioritising climate-related risks, including how materiality determinations are made within their organisations.

In describing their processes for managing climate-related risks, organisations should address the risks included in Tables [A1.1](#) and [A1.2](#) in *Annex A*, as appropriate.

4.11 The 'Examples of Climate-Related Risks/Opportunities and Potential Financial Impacts' (Table [A1.1](#) and [A1.2](#)) may be less relevant for certain public sector bodies and do not need to be considered if not relevant.

Public sector considerations and further guidance

4.12 As well as considering internal risk management processes, reporting entities should also consider whether information from external risk frameworks is relevant for their disclosures. The government and the wider UK public sector report against various risk frameworks. These often include climate change as a risk. Identifying, assessing, and leveraging existing risk frameworks will likely aid and improve disclosure. Further guidance is included in Annex A.

Recommended disclosure for Risk Management (c)

Overall integration

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

Supporting guidance from TCFD

Organisations should describe how their processes for identifying, assessing, and managing climate-related risks are integrated into their overall risk management.

Public sector considerations and further guidance

4.13 The organisation must explain how its risk disclosures and management of climate-related risks are integrated into the overall risk management process.

4.14 Where climate is identified as a principal risk, then bespoke climate-related risk management is more likely, which will interact with the organisation's overall risk management. Where climate is not deemed a principal risk but is instead a significant component of another principal risk or a cross-cutting risk, the organisation may manage climate-related risks in the same way as other risks as part of their overall risk management.

4.15 Where risk management processes are described in sufficient detail elsewhere in the annual report (e.g., the Governance Statement), the TCFD recommended disclosures should utilise this information cross-referencing accordingly to avoid duplication.

Interaction with strategic and other principal risks

4.16 Climate risk is often an exacerbation of existing strategic risks (e.g., extreme weather, water shortages, etc.). Climate change may make these risks more likely or the related impacts more serious. Hence, climate change risks should not be considered in isolation and should be clearly integrated into the strategy of an organisation.

4.17 Where an organisations existing risk types are impacted by climate, these cross-cutting risk types are likely to require integration into existing risk management practices.

4.18 Reporting entities must apply judgement in deciding which risks should be addressed in the TCFD-aligned disclosures and which are considered as other strategic or principal risks. Linkages between related risk disclosures should be explained - making use of cross-referencing where appropriate.

4.19 While this application guidance sets minimum disclosure requirements, the level of detail should be commensurate with the significance of climate-related risks to the organisation. Care should be taken to ensure the TCFD-aligned disclosures are proportional – considering other risks disclosed in the annual report.

Chapter 5

Metrics and Targets

5.1 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.

5.2 Metrics and targets are essential for monitoring performance and tracking progress. The Climate Change Act³⁴ commits the UK government by law to reduce GHG emissions – similar legislation has been set by devolved administrations. Central government and wider public sector bodies may have set their own net zero commitments.

5.3 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.

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

5.4 This chapter comprises primarily quantitative disclosures related to metrics and targets, as well as qualitative information on how the metrics and targets are used by the organisation.

Materiality

5.5 The Task Force requires organisations to provide Scope 1⁴ and Scope 2 GHG emissions independent of a materiality assessment and, if appropriate, Scope 3 GHG emissions and the related risks. The disclosure of Scope 3 GHG emissions is subject to a materiality assessment. Further reporting on Scope 3 emissions, beyond the existing categories set out by relevant authorities, is considered voluntary at this time. GHG emission scopes are defined in the GHG Protocol – please refer Annex A for further information.

³⁴ Climate Change Act 2008: www.legislation.gov.uk/ukpga/2008/27/contents

5.6 Other climate-related metric categories remain subject to materiality – except where they are specifically mandated by other reporting requirements (e.g., in legislation, from relevant authorities).

Applicability

5.7 Existing performance reporting across the UK public sector requires disclosure in respect of non-financial and sustainability information. The interlinkage and overlap of climate-related and sustainability-related topics is addressed in [Chapter 1](#).

Public sector considerations and further guidance

Commentary

5.8 Where climate-related targets have been set by an organisation (or on them by an external authority), performance against them should be reported. If performance information has already been published elsewhere, signposting to external sources is acceptable. The related commentary must be clear as to whether performance is improving or worsening and not assume this is clear to the user.

Methodologies and reporting boundaries

5.9 Organisations should ensure they include definitions and methodologies to explain their metrics and targets, particularly where they are organisation-specific.

5.10 Where there are differences in the reporting boundaries for metrics and targets disclosures, these should be explained clearly.

Prior period reporting

5.11 Organisations must provide prior year data to track historical performance. Reporting entities should also provide historical data for past years when doing so enhances the user's understanding of performance.

Baselining

5.12 A base year serves as a reference point for comparing present and past emissions. To keep data consistent, base year figures may be recalculated following significant structural changes.

5.13 When reporting against metrics and targets, it must be clear as to which years have been set as the baseline. Where external cross-sector frameworks (e.g., GGCs for central government) are being used, the same baseline year should be applied for comparability.

5.14 However, there may be instances where a reporting entity sets a new baseline year – either in the absence of one set externally or where significant structural changes (or other changes) have meant a baseline set internally is needed for monitoring purposes. In such instances, reporting entities should explain their choice.

5.15 Where a base year is used for performance monitoring, the base year data must be updated and reported in line with changes in

accounting policies and boundaries. When material changes occur, the prior-year figure reported for comparative purposes must also be updated with an accompanying explanation.

5.16 Prior period comparative information should not go beyond the baseline year.

Broader considerations

5.17 Examples of certain different sustainability measurement types which public sector bodies may choose to use, include³⁵:

- Operational impacts
- Policy effectiveness
- The state of economic, environmental, and social conditions in areas under their jurisdiction.
- Strategies to create value (for the organisation, its stakeholders, lenders, public-private partnerships, and society more broadly)

5.18 When determining what information to include in annual reports, preparers must consider both financial materiality with respect to their accounts and the significance of broader impacts on the organisation's current and future performance with respect to their objectives and strategy.

5.19 The public sector is a sector in its own right - with policy effectiveness, stewardship and value creation forming part of the organisation's strategy, alongside operational impacts. Related disclosures for broader impacts and outcomes should provide a balanced view – noting these are often more challenging to measure and assess.

5.20 The responsibility for setting policy, delivering outcomes, and providing services is often shared by multiple organisations and the boundaries of responsibility may be less clearly defined compared to the private sector – where formal agreements and ownership structures are more common.

5.21 Where information on broader policy and outcomes is relevant, its significance and ability to meet the primary user's needs, must be considered. Summarising this information and signposting to external reports may be more useful – refer to 1.66 to 1.71

5.22 Disclosures related to broader considerations should be clearly separated from disclosures on entity-level operational impacts.

5.23 Organisations are encouraged to consider climate adaptation and resilience, as well as climate change avoidance, when considering Metrics and Targets. This will form a significant component of government's response to climate change.

³⁵ CIPFA's [Public Sector Sustainability Reporting: time to step it up](#); [Public Agency Sustainability Reporting](#), GRI, 2004;

Recommended disclosures

5.24 This section sets out the TCFD’s recommended disclosures for Metrics and Targets (in red boxes), with ‘Supporting guidance from TCFD’ (in red). Interpretations or adaptations have been made to the supporting TCFD guidance for Metrics and Targets recommended disclosures (a) to (c) – explained later in this section (and in Annex A). The ‘Public sector considerations and further guidance’ section provides additional clarity to annual report preparers, alongside public sector-specific considerations.

Recommended disclosure for Metrics and Targets (a)

Metrics

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Supporting guidance from TCFD

Organisations should provide the key metrics used to measure and manage climate-related risks and opportunities, as described in Tables [A1.1](#) and [A1.2 in Annex A](#), as well as metrics consistent with the cross-industry [*or cross-sector*], climate-related metric categories described in Table [A2.1 in Annex A](#). Organisations should consider including metrics on climate-related risks associated with water, energy, land use, and waste management where relevant and applicable.

Where climate-related issues are material, organisations should consider describing whether and how related performance metrics are incorporated into remuneration policies.

Where relevant, organisations should provide their internal carbon prices as well as climate-related opportunity metrics ~~such as revenue from products and services designed for a low-carbon economy~~.

Metrics should be provided for historical periods to allow for trend analysis. Where appropriate, organisations should consider providing forward-looking metrics for the cross-industry [*and cross-sector*], climate-related metric categories described in Table [A2.1 in Annex A](#), consistent with their ~~business operational~~ or strategic planning time horizons. In addition, where not apparent, organisations should provide a description of the methodologies used to calculate or estimate climate-related metrics.

Additional guidance for non-financial groups

For all relevant metrics, organisations should consider providing historical trends and forward-looking projections (by relevant country and/or jurisdiction, business line, or asset type). Organisations should also consider disclosing metrics that support their scenario analysis and strategic planning process and that are used to monitor the

organisation's business environment from a strategic and risk management perspective.

Organisations should consider providing key metrics related to GHG emissions, energy, water and other physical risk exposures, land use, and, if relevant, investments in climate adaptation and mitigation that address potential financial aspects of shifting demand, expenditures, asset valuation, and cost of financing.

5.25 The 'Supporting guidance from TCFD' has been adapted to remove reference to 'revenue goals from for products and services designed for a low carbon economy' which is irrelevant for the vast majority of public sector bodies. TCFD's 'Examples of Climate-Related Risks/Opportunities and Potential Financial Impacts' (in Table [A1.1](#) and [A1.2](#)) may be less relevant for certain public sector bodies - refer to Annex A for further guidance.

Public sector considerations and further guidance

Industry and cross-sector comparatives

5.26 The TCFD framework emphasises the importance of cross-industry-based metrics and targets for comparability. Where a public sector body operates in a specialised industry, they should consider reporting cross industry-based metrics – refer to para. 1.27.

5.27 In addition to the cross-industry metrics, existing sustainability reporting frameworks across the UK public sector, which already require reporting on water, energy, land use, and waste management, may be used to draw cross-sector comparatives (e.g., GGCs for central government, NHS Greener metrics, climate and sustainability-related reporting in the devolved administrations which are often collected outside annual reports).

5.28 The Task Force has published additional [Guidance on Metrics, Targets and Transition Plans](#) which provides further information and examples on metrics and targets. Guidance on transition plans is not, however, being opined on in this guidance.

Climate-related performance-based remuneration policy

5.29 While the TCFD guidance makes specific reference to incorporating performance measures into remuneration policies, UK public sector bodies may have less flexibility in setting remuneration policies and may be subject to additional controls and limitations.

5.30 Furthermore, public sector bodies may have a broader set of levers to drive organisational change. Consequently, guidance on climate-related performance-based remuneration policy may be less relevant in a public sector context.

Internal carbon pricing

5.31 Internal carbon price refers to a monetary value on GHG emissions an organisation uses internally to guide its decision-making process in relation to climate change impacts, risks, and opportunities. This represents the external costs of GHG emissions.

5.32 The government already uses internal carbon prices ('carbon/emissions values') to evaluate the impact of GHG emissions on policy and programme appraisals. This represents a monetary value that society places on one tonne of carbon dioxide equivalent (£/tCO₂e).

5.33 These differ from external carbon prices, which represent the observed price of carbon in a relevant market (such as the UK Emissions Trading Scheme).

5.34 Reporting entities that use internal carbon pricing should provide relevant disclosure in their annual reports - signposting to external frameworks and sources where appropriate. This may include information on how carbon values (or internal carbon prices) are used to appraise and evaluate policies, programmes or projects, as well as the absolute value.

Recommended disclosure for Metrics and Targets (b)

Emissions

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

Supporting guidance from TCFD

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.

Public sector considerations and further guidance

Existing emissions and climate-related reporting in central government

5.35 Currently, the GGCs require certain central government bodies to report on emissions, including Scope 1, Scope 2, and Scope 3 – business travel only. Central government bodies in scope of the GGCs should

align their reporting with the Sustainability Reporting Guidance¹⁴ (SRG), ensuring the same underlying methodology is applied.

5.36 At present, further categories of Scope 3 GHG emissions (in addition to business travel) are not required for GGC or SRG purposes. However, central government bodies may choose to report on other GHG emissions sources - which are out-of-scope of the current GGC framework. Some of these emission sources are considered in the SRG³⁶.

5.37 Where applicable, central government reporting boundaries should mirror the GGC boundaries. This may differ from the principle set out in para. 1.72.

5.38 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.

Other public sector bodies

5.39 Emissions reporting requirements may necessitate new reporting procedures, adapting/extending existing voluntary reporting, or assessing alignment of their existing frameworks with the TCFD guidance. Reporting entities will benefit from considering this early, and relevant authorities should be consulted where appropriate.

Methodologies and reporting boundaries

5.40 The GHG Protocol is the most widely used methodology and underpins most emissions reporting frameworks – including the TCFD's framework.

5.41 Reporting entities should provide an explanation of the methodology used to calculate emissions metrics, including whether it is in accordance with the GHG Protocol methodology, the reporting boundaries and highlighting any changes in the basis of reporting. Where organisations align their methodology or reporting boundary with an existing reporting framework (e.g., GGCs for central government) then simply stating this alignment is sufficient.

5.42 As there is significant scope for judgement in determining boundaries and which emissions are included, organisations should explain these decisions clearly. This information is expected to be more material where these metrics underpin a major policy or strategy.

Intensity metrics

5.43 Reporting entities should consider reporting intensity metrics (emissions per chosen unit) and provide clear explanations of the choice of metric.

³⁶ Refer to the [Sustainability Reporting Guidance](#) for guidance on further Scope 3 GHG emissions categories outside of the business travel.

Scope 3

5.44 Organisations may choose to undertake an assessment of Scope 3 emissions. If a reporting entity decides to report further emissions, they must clearly identify which emissions categories are included and ensure this is understandable with historical data. Further information on emissions scopes is included in Annex A.

5.45 Where Scope 3 emissions are deemed to be material to primary users, but not disclosed in the annual report - the reporting entity should update their TCFD Compliance Statement, detailing the reason for the omission and setting out the expected timeframe for their inclusion, where appropriate.

Recommended disclosure for Metrics and Target (c)

Targets

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Supporting guidance from TCFD

Organisations should describe their key climate-related targets such as those related to GHG emissions, water usage, energy usage, etc., in line with the cross-industry *[and cross-sector]* climate-related metric categories in Table [A2.1 in Annex A](#), where relevant, and in line with anticipated regulatory requirements or market constraints or other goals. Other goals may include efficiency or financial goals, *[and]* financial loss tolerances, avoided GHG emissions through the entire *service delivery and product life cycle*, ~~or net revenue goals for products and services designed for a low carbon economy.~~

In describing their targets, organisations should consider including the following:

- whether the target is absolute or intensity-based;
- time frames over which the target applies;
- base year from which progress is measured; and
- key performance indicators used to assess progress against targets.

Organisations disclosing medium-term or long-term targets should also disclose associated interim targets in aggregate or by business line, where available.

Where not apparent, organisations should provide a description of the methodologies used to calculate targets and measures.

5.46 The 'Supporting guidance from TCFD' has been adapted to introduce reference to 'service delivery' in lifecycle emissions considerations relevant for public sector bodies, and remove reference to 'revenue goals from for products and services designed for a low

carbon economy' which is irrelevant for the vast majority of public sector bodies.

Public sector considerations and further guidance

5.47 Organisations should provide fair, balanced, and understandable commentary on climate and sustainability-related performance, detailing organisational activities and other factors that have led to significant movements.

5.48 Annual reports should clearly distinguish between 'targets', 'commitments', 'pledges', 'goals', 'aims', and 'ambitions', explaining which of these policies they have actively pursued and included in organisational plans and budgets.

5.49 Organisations should clearly highlight which Key Performance Indicators (KPIs) are used to monitor progress against targets and provide sufficient information to assess performance.

5.50 Reporting entities should explain which Scope 1, 2 or 3 emissions are included in their targets and ensure that their relationship with GHG reporting metrics is clearly explained.

5.51 Reporting entities should provide comparative information for all metrics alongside current reporting to enable performance against the target to be assessed. Any updates to targets, such as restatements or updates to baselines, should be disclosed and explained.

5.52 Organisations should identify any areas where performance was not in accordance with the target and any actions taken to address this.

Annex A

Further guidance

TCFD's Recommendation and Guidance

A.1 The TCFD framework structure for recommendations and guidance is depicted in [Figure A.1](#). 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.

Figure A.1 TCFD's Recommendations and Guidance



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

Climate-related risks and risk management

TCFD's guidance on climate-related risks and opportunities

A.2 Climate change can have far-reaching impacts, encompassing not only physical effects on people and the environment but also the consequences of transitioning to a changing climate, along with the necessary tasks of adaptation and mitigation. The Task Force categorise climate-related risks as follows:

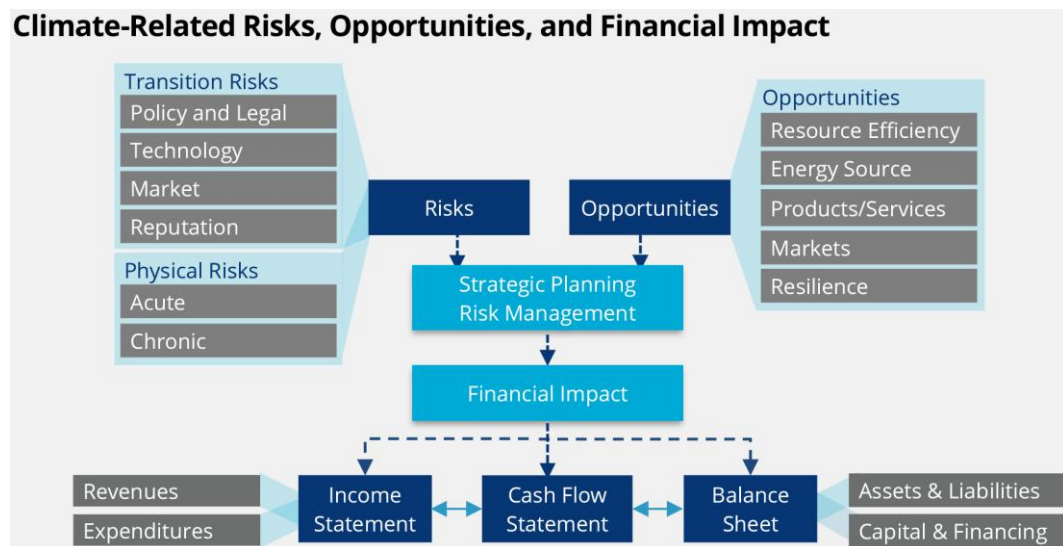
- Physical risks – adverse impacts (e.g., disruption to operations, destruction of property) either event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires) or longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise); or,

- Transition risks - associated with the move to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.

A.3 The TCFD identified certain climate-related risks, opportunities, and financial impacts which may be relevant for disclosure – denoted in [Figure A.2](#). The Task Force also set out examples of climate-related risks and opportunities, as well as the potential financial impacts – included in [Table A1.1](#) and [A1.2](#). Further details are included in [the TCFD guidance](#).

A.4 Not all TCFD’s guidance or examples are relevant to, or can be applied by, public sector bodies. Discretion must be used to determine which are relevant in their own context.

Figure A.2 Climate-related risks, opportunities and financial impact identified by the Task Force



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

Table A1.1 Examples of climate-related risks and potential financial impacts

Type	Climate-related risks	Potential financial impacts
Transition Risks	Policy and Legal	
	<ul style="list-style-type: none"> - Increased pricing of GHG emissions - Enhanced emissions-reporting obligations - Mandates on and regulation of existing products and services - Exposure to litigation 	<ul style="list-style-type: none"> - Increased operating costs (e.g., higher compliance costs, increased insurance premiums) - Write-offs, asset impairment, and early retirement of existing assets due to policy changes - Increased costs and/or reduced demand for products and services resulting from fines and judgments
	Technology	
	<ul style="list-style-type: none"> - Substitution of existing products and services with lower emissions options - Unsuccessful investment in new technologies - Costs to transition to lower emissions technology 	<ul style="list-style-type: none"> - Write-offs and early retirement of existing assets - Reduced demand for products and services - Research and development (R&D) expenditures in new and alternative technologies - Capital investments in technology development Costs to adopt/deploy new practices and processes
	Market	
	<ul style="list-style-type: none"> - Changing customer behaviour - Uncertainty in market signals - Increased cost of raw materials 	<ul style="list-style-type: none"> - Reduced demand for goods and services due to shift in consumer preferences - Increased production costs due to changing input prices (e.g., energy, water) and output requirements (e.g., waste treatment)Abrupt and unexpected shifts in energy costs - Change in revenue mix and sources, resulting in decreased revenues - Re-pricing of assets (e.g., fossil fuel reserves, land valuations, securities valuations)

Transition Risks	Reputation	
	<ul style="list-style-type: none"> - Shifts in consumer preferences - Stigmatisation of sector - Increased stakeholder concern or negative stakeholder feedback 	<ul style="list-style-type: none"> - Reduced revenue from decreased demand for goods/services - Reduced revenue from decreased production capacity (e.g., delayed planning approvals, supply chain interruptions) - Reduced revenue from negative impacts on workforce management and planning (e.g., employee attraction and retention) - Reduction in capital availability
Physical Risks	Acute	
	<ul style="list-style-type: none"> - Increased severity of extreme weather events such as cyclones and floods 	<ul style="list-style-type: none"> - Reduced revenue from decreased production capacity (e.g., transport difficulties, supply chain interruptions) - Reduced revenue and higher costs from negative impacts on workforce (e.g., health, safety, absenteeism) - Write-offs and early retirement of existing assets (e.g., damage to property and assets in “high-risk” locations)
	Chronic	
	<ul style="list-style-type: none"> - Changes in precipitation patterns and extreme variability in weather patterns - Rising mean temperatures - Rising sea levels 	<ul style="list-style-type: none"> - Increased operating costs (e.g., inadequate water supply for hydroelectric plants or to cool nuclear and fossil fuel plants)

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

Table A1.2 Examples of climate-related opportunities and potential financial impacts

Type	Climate-related opportunity	Potential financial impacts
Resource Efficiency	- Use of more efficient modes of transport	- Reduced operating costs (e.g., through efficiency gains and cost reductions)
	- Use of more efficient production and distribution processes	- Increased production capacity, resulting in increased revenues
	- Use of recycling	- Increased value of fixed assets (e.g., highly rated energy-efficient buildings)
	- Move to more efficient buildings	- Benefits to workforce management and planning (e.g., improved health and safety, employee satisfaction) resulting in lower costs
	- Reduced water usage and consumption	
Energy Source	- Use of lower-emission sources of energy	- Reduced operational costs (e.g., through use of lowest cost abatement)
	- Use of supportive policy incentives	- Reduced exposure to future fossil fuel price increases
	- Use of new technologies	- Reduced exposure to GHG emissions and therefore less sensitivity to changes in cost of carbon
	- Participation in carbon market	- Returns on investment in low-emission technology
	- Shift toward decentralised energy generation	- Increased capital availability (e.g., as more investors favour lower-emissions producers)
		- Reputational benefits resulting in increased demand for goods/services

Type	Climate-related opportunity	Potential financial impacts
Products and Services	<ul style="list-style-type: none"> - Development and/or expansion of low emission goods and services - Development of climate adaptation and insurance risk solutions - Development of new products or services through R&D and innovation - Ability to diversify business activities - Shift in consumer preferences 	<ul style="list-style-type: none"> - Increased revenue through demand for lower emissions products and services - Increased revenue through new solutions to adaptation needs (e.g., insurance risk transfer products and services) - Better competitive position to reflect shifting consumer preferences, resulting in increased revenues
Markets	<ul style="list-style-type: none"> - Access to new markets - Use of public-sector incentives - Access to new assets and locations needing insurance coverage 	<ul style="list-style-type: none"> - Increased revenues through access to new and emerging markets (e.g., partnerships with governments, development banks) - Increased diversification of financial assets (e.g., green bonds and infrastructure)
Resilience	<ul style="list-style-type: none"> - Participation in renewable energy programs and adoption of energy- efficiency measures - Resource substitutes/diversification 	<ul style="list-style-type: none"> - Increased market valuation through resilience planning (e.g., infrastructure, land, buildings) - Increased reliability of supply chain and ability to operate under various conditions - Increased revenue through new products and services related to ensuring resiliency

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

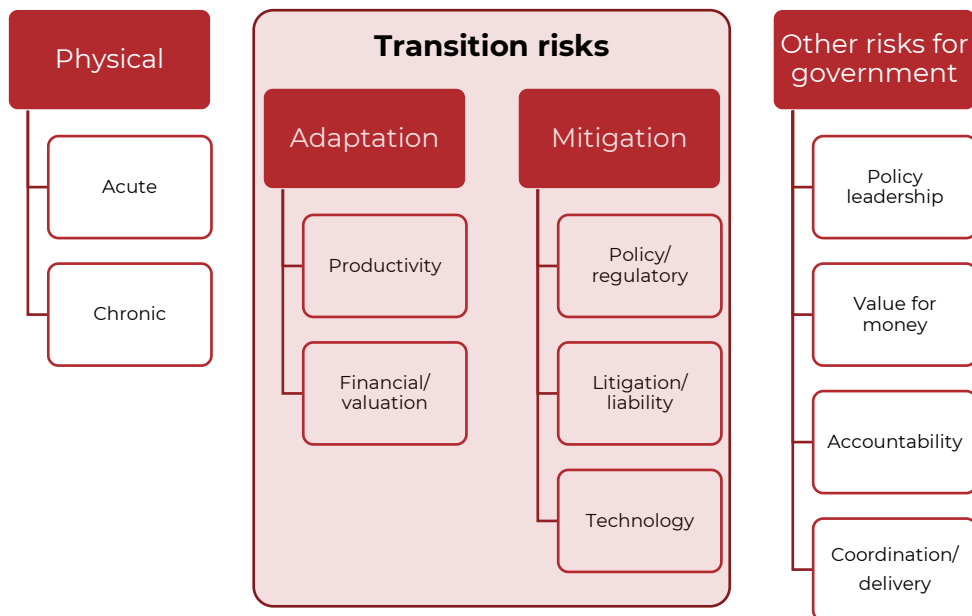
Climate-related risks particularly relevant to the public sector

A.5 Public sector bodies face additional climate-related related risks in connection with value for money, accountability, policy leadership, and coordination and delivery. The NAO published [Climate change risk: A good practice guide for ARACs](#) which offers further reading in this area.

A.6 Example of climate-related risk categories that organisations may wish to consider are included in [Figure A.3](#), with those specific to the public sector summarised as follows:

- **Policy leadership risk** refers to the danger of government failing to effectively address climate change due to the lack of a clear, coherent, and flexible strategy across departments. This risk encompasses uncertainties in technological development, changes in behaviour, and the need for transparent, realistic plans to meet long-term objectives like net zero by 2050.
- **Value for money risk** in the context of transitioning to net zero refers to the financial dangers associated with either delayed action or hasty decisions without adequate risk assessment, potentially leading to increased long-term costs or expensive future corrections. This risk highlights the importance of integrating climate change risks in decision-making to balance cost-effectiveness with swift progress towards net zero goals.
- **Accountability risk** is the ambiguity and potential ineffectiveness in achieving net zero goals driven by unclear roles and responsibilities of public bodies outside central government departments.
- **Coordination and delivery risk** refers to the potential failure in effectively addressing climate change due to inadequate collaboration, communication, and sharing of knowledge among different organisations. This risk arises from unclear roles, fragmented funding, and diffuse accountabilities, particularly between central and local governments and other bodies, leading to social and economic costs and failure to meet targets.

Figure A.3 UK public sector climate-related risks



Other public sector climate risk frameworks

A.7 The government identifies climate change as a risk in the National Risk Register³⁷. The CCC was established under the Climate Change Act 2008 and produces a periodic UK CCRA. The UK CCRA identifies priority risk areas for the UK government to address (including on freshwater, soil health, carbon stores, supply chains, etc).

A.8 The Department for Environment, Food & Rural Affairs (Defra) publish the National Adaptation Programme (NAP) to respond to UKCCRA's risks facing the natural environment, infrastructure, people and the built environment, business and industry, local government, and adaptation reporting.

A.9 Each of the devolved administrations have their own legislation with respect to climate change and are required to develop adaptation plans to respond to the risks (and opportunities) posed by climate change - as identified in the most recent UKCCRA.

A.10 The CCC independently assess progress toward reducing emissions progress on climate change adaptation plans.

A.11 UK public sector bodies that are considering the climate-related risks and opportunities impacting them, or indirectly impacting the economy, environment and people that they have a policy setting responsibility over, may wish to consider the following source: UK CCRA, NAP.

Metrics and targets

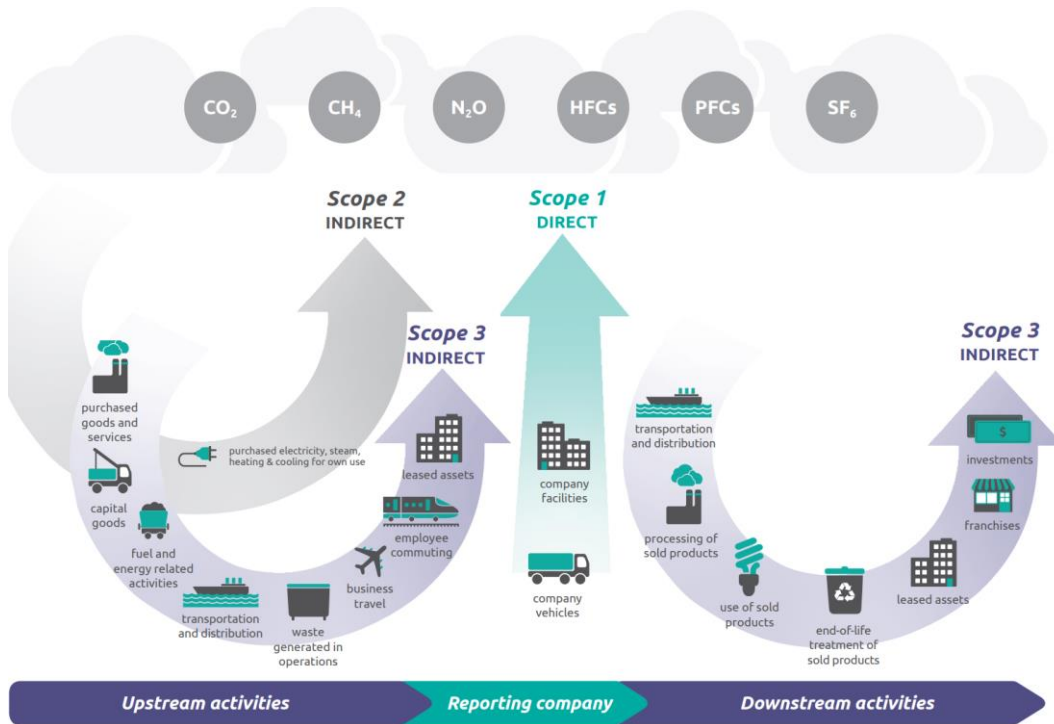
Emission scopes

A.12 The GHG Protocol set out the emission scope levels as depicted in [Figure A.4](#). This can be summarised as follows:

- Scope 1 refers to all direct GHG emissions.
- Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam.
- Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g., transmission and distribution losses), outsourced activities, and waste disposal.

³⁷ <https://www.gov.uk/government/publications/national-risk-register-2023>

Figure A.4 Overview of GHG Protocol scopes and emissions across the value chain



Source: <https://ghgprotocol.org/>

TCFD's guidance on metric categories

A.13 The Task Force published Guidance on Metrics and Targets which includes seven metric categories (Table A2.1). The Task Force believes these are generally applicable to all organisations. The table also includes certain public sector interpretations which are in line with the proceeding chapters.

Table A2.1 Cross-industry, climate-related metric categories

Metric Category	Example Unit of Measure	Rationale for Inclusion	Public sector applicability
GHG Emissions Absolute Scope 1, Scope 2, and Scope 3; emissions intensity	MT of CO2e	Disclosure of GHG emissions is crucial for users to understand an organisation’s exposure to climate-related risks and opportunities. Disclosure of both absolute emissions across an organisation’s value chain and relevant emissions intensity provides insight into how a given organisation may be affected by policy, regulatory, market, and technology responses to limit climate change.	Reporting on Scope 3 categories beyond those mandated in other existing public sector frameworks is not required.
Transition Risks Amount and extent of assets or organisational activities vulnerable to transition risks*	Amount or percentage	Disclosure of the amount and extent of an organisation’s assets or business activities vulnerable to climate-related transition risks allows users to better understand potential financial exposure regarding such issues as possible impairment or stranding of assets, effects on the value of assets and liabilities, and changes in demand for products or services.	The responsibilities and structures for asset ownership, control and management may differ from the private sector, extending beyond the direct remit of financial reporting. Further guidance on asset management is included in MPM. Reporting entities are encouraged to consider assets belonging to others which they protect or influence. Where such components do not form part of the entity’s balance sheet, this should be clearly stated.
Physical Risks Amount and extent of assets or organisational activities vulnerable to physical risks	Amount or percentage	Disclosure of the amount or extent of an organisation’s assets or business activities vulnerable to material climate-related physical risks allows users to better understand potential financial exposure regarding such issues as impairment or stranding of assets, effects on the value of assets and liabilities, and cost of business interruptions.	

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

Metric Category	Example Unit of Measure	Rationale for Inclusion	Public sector applicability
Climate-Related Opportunities Proportion of revenue, assets, or other business activities aligned with climate-related opportunities	Amount or percentage	Disclosure of the proportion of revenue, assets, or business activities aligned with climate-related opportunities provides insight into the position of organisations relative to their peers and allows users to understand likely transition pathways and potential changes in revenue and profitability over time.	Most public sector bodies are unlikely to generate significant revenue.
Capital Deployment Amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities	Reporting currency	Capital investment disclosure by non-financial organisations and financing by financial organisations gives an indication of the extent to which long-term enterprise value might be affected.	

Note: While some organisations already disclose metrics consistent with these categories, the Task Force recognises others—especially those in the early stages of disclosing climate-related financial information—may need time to adjust internal processes before disclosing such information. In addition, some of the metric categories may be less applicable to certain organisations. For example, data and methodologies for certain metrics for asset owners (e.g., impact of climate change on investment income) are in early stages of development. In such cases, the Task Force recognises organisations will need time before such metrics are disclosed to their stakeholders.

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

Metric Category	Example Unit of Measure	Rationale for Inclusion	Public sector applicability
Internal Carbon Prices Price on each ton of GHG emissions used internally by an organisation	Price in reporting currency, per MT of CO2e	Internal carbon prices provide users with an understanding of the reasonableness of an organisation’s risk and opportunity assessment and strategy resilience. The disclosure of internal carbon prices can help users identify which organisations have <i>operational</i> models that are vulnerable to future policy responses to climate change and which are adapting their <i>operational</i> models to ensure resilience to transition risks.	Public sector bodies that use internal carbon prices (or carbon values) to assess and evaluate policy and programmes should disclose the values and how they are used. Refer to para. 5.31 and 5.32 for further guidance.
Remuneration Proportion of executive management remuneration linked to climate considerations**	Percentage, weighting, description, or amount in reporting currency	Remuneration policies are important incentives for achieving an organisation’s goals and objectives and may provide insight on an organisation’s governance, oversight, and accountability for managing climate-related issues.	Sustainable performance-based pay may be less relevant for public sector bodies. Refer to para. 5.29 and 5.30 for further guidance.

*Transition and Physical Risks: Due to challenges related to portfolio aggregation and sourcing data from companies or third-party fund managers, financial organisations may find it more difficult to quantify exposure to climate-related risks. The Task Force suggests that financial organisations provide qualitative and quantitative information, when available.

** Remuneration: While the Task Force encourages quantitative disclosure, organisations may include descriptive language on remuneration policies and practices, such as how climate change issues are included in balanced scorecards for executive remuneration.

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

Public sector interpretations and adaptations

A.14 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 and adapted for a public sector context – as identified and explained in Table A.3 (below).

A.15 These interpretations and adaptations are limited specifically to this guidance (and the UK public sector) and should not be applied more widely.

Table A.3 Public sector interpretations and adaptations

Private sector	Public sector	Explanation
Business or company	Organisation	Encompasses a wider array of bodies, including those in the public sector.
Business plan Organisation's Business /	Organisation's Operations / Operational 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.
An organisation's business or business model	An organisation's operations or operational model	Transforming inputs through its activities into outputs and outcomes that aims to fulfil the entity's objectives, by providing goods and/or services.
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.
Investors	Primary users	In the private sector, primary users of annual reports are generally accepted to be investors. For UK government and public sector annual reports, primary users vary depending on the relevant authority. For example, primary users of central government ARAs are Parliament

Private sector	Public sector	Explanation
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 goods 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 monetisable 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).
Revenues, costs	Income, expenditure	While equivalent, the terminology of income and expenditure is more common in the public sector
investment in research and development	investment and grants in research and development	The public sector often funds R&D through grants – rather than direct investment.

Table A.4 Global Warming Level Pathways identified by CCC in CCRA4 methodology

Time period	Central scenario			High climate hazard sensitivity		
	2030s	2050s	2080s-2100	2030s	2050s	2080s-2100
Global warming level (above preindustrial levels)	1.5°C	2°C	2°C	2°C	2.5°C	4°C
UK climate hazards	Median of UKCP18 at 1.5°C	Median of UKCP18 at 2°C	<i>If current NDC and net zero targets are delivered central estimates keep levels of between 1.5-2°C</i>	Upper-end UKCP18 at 2°C	Upper-end UKCP18 at 2.5°C	<i>certain current policy scenarios reaching/ exceeding 4°C by 2100</i>

Source: <https://www.theccc.org.uk/publication/proposed-methodology-for-the-ccra4-advice>

NDC – nationally determined contributions

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 B.1 (next page).

B.3 While in-scope central government bodies should follow the implementation timetable set out in Table B.1, 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. 1.39).

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 need to 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 disclose.

Applying appropriate judgement to the level and breadth of disclosure is key to producing effective and useful public sector annual reports.

Table B.1 Overview of TCFD-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 with existing quantitative disclosures	Quantitative disclosures with technical requirements. TCFD-aligned disclosure is fully implemented.
Requirements	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • Governance • Risk Management • Metrics and Targets Comply or explain basis	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: <ul style="list-style-type: none"> • Governance • Risk Management • Metrics and Targets, considering wider reporting. • Strategy Comply or explain basis
Interaction with GGC framework	Continue to apply GGC21-25 emissions methodology for Metrics and Targets, in line with SRG	Continue to apply GGC21-25 emissions methodology for Metrics and Targets in line with SRG	Apply new GGC25-30 emissions methodology for Metrics and Targets (GGC21-25 runs until 31 March 2025 with next commitment period for GGC25-30 starting on 1 April 2025). Consider further additional support on emissions methodology (e.g. on scope 3).

Annex C

List of abbreviations

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

Table C.1 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

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This document can be downloaded from www.gov.uk

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HM Treasury

TCFD-aligned disclosure

**Exposure draft: Application
guidance**

Phase ~~1~~ & 2 & 3

March ~~July~~ 2024



HM Treasury

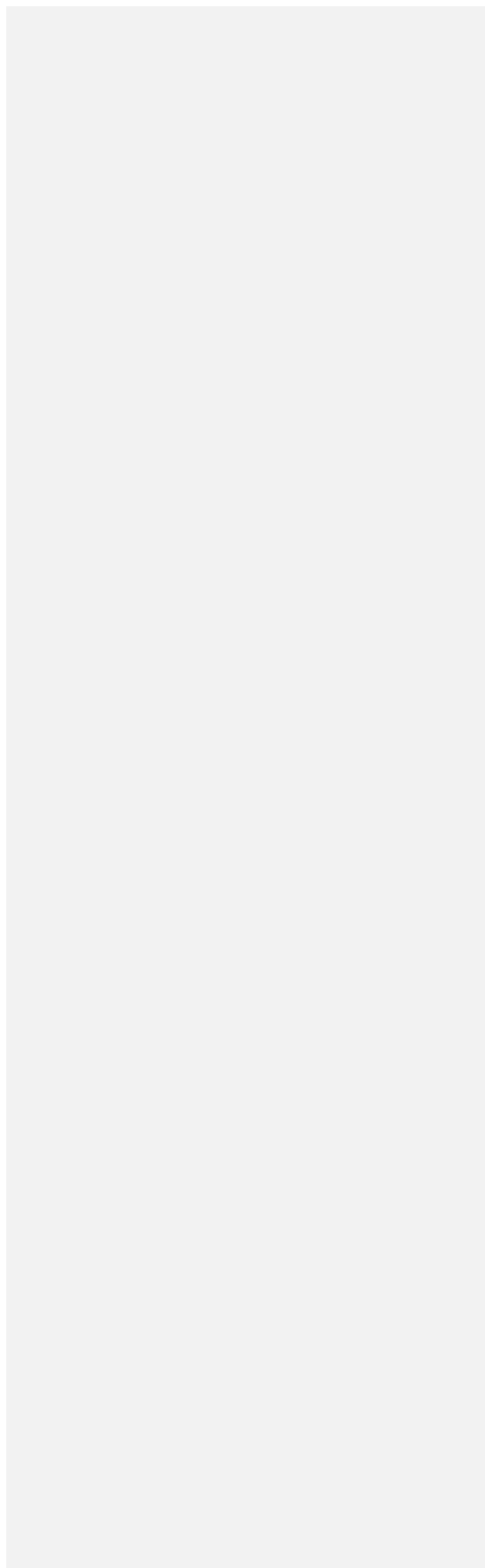
TCFD-aligned disclosure

~~Application guidance~~

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Phase 1 ~~&~~ 2 & 3

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Contents

Invitation to comment	8
Questions	9
Foreword	12
Year of applicability	6
Scope	6
Summary requirements	6
Chapter 1 Introduction	1514
Overview	1514
Application	1817
Scope	1918
Concepts and Principles	2221
Chapter 2 Governance	3633
Overview	3633
Recommended disclosures	3734
Chapter 3 Strategy	4037
Overview	40
Principal, new and emerging risks	41
Recommended disclosures	44
Climate scenario analysis	53
Chapter 4 Risk Management	4642
Overview	6256
Recommended disclosures	6557
Chapter 5 Metrics and Targets	6860
Overview	6860
Recommended disclosures	7163
Annex A Further guidance	7668
Annex B Phased implementation approach	9384
Annex C List of abbreviations	9687

Invitation to comment

Introduction

HM Treasury has published this Exposure Draft to consult on new climate-related financial disclosures. These are based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

These requirements follow on from the TCFD-aligned disclosure application guidance - Phase 1 and Phase 2 document published in March 2024.

This Exposure Draft covers the whole UK public sector, which is the boundary for Whole of Government Accounts. However, the relevant authority for each jurisdiction within that boundary will have their own due process for proposing and approving changes to their reporting regime. This consultation does not supplant those processes. The proposed changes are published for comment only. The proposals may be modified before being formally presented to the Financial Reporting Advisory Board (FRAB) for its approval.

Structure of Exposure Draft

The Exposure Draft provides the proposed application guidance for Phase 3 of TCFD implementation, and the proposed adaptations and interpretations for the TCFD framework, as well as UK public sector-specific considerations.

Invitation to comment

HM Treasury invites comments on the new application guidance being applied to central government and the wider UK public sector. Responses to the questions set out in Chapter 3 would be particularly welcomed. Comments are most helpful if they:

- Respond to the question as stated
- Indicate the specific paragraph or paragraphs to which they relate
- Contain a clear rationale
- Describe any alternatives HM Treasury should consider

Comments on this Consultation Paper should be submitted in writing so as to be received by Dddd DD September 2024. Respondents are asked to send their comments electronically to Resource.Accounts@hmtreasury.gov.uk.

All responses will be published on the GOV.UK website unless the respondent requests confidentiality.

HM Treasury will consider all comments received in writing by Dddd DD September 2024. In considering the comments, HM Treasury will base its conclusions on the merits of the arguments for and against the

alternative, not on the number of responses supporting each alternative.

Effective date

The proposed effective date for this guidance for central government bodies is 1 April 2025.

Other public sector bodies should follow the direction from their respective relevant authority. Public sector bodies may choose to voluntarily apply this guidance - in full or in part.

Questions

Question 1:

Is the Principal, new and emerging risk section sufficiently clear? Does the guidance on risk assessments, risk reporting and risk prioritisation adequately set out the expectation and disclosure requirements, and support preparers? If not, what further detail should be added?

Question 2 a)

Do you support our approach to not adapt Strategy recommended disclosure a) or the Supporting Guidance from TCFD? If not, why not?

Question 2 b)

Is the additional detail on time horizons, impacts with respect to broader public sector considerations, and climate-related opportunities sufficiently clear? Do you support this public sector interpretation? If not, why not?

Question 3 a)

Do you support our approach to not adapt Strategy recommended disclosure b) or the Supporting Guidance from TCFD? Do you support the interpretations for Strategy recommended disclosure b) and the Supporting Guidance from TCFD? If not, why not?

Question 3 b)

Is the additional clarification and guidance on impacts with respect to broader public sector considerations, and quantification is sufficiently clear? If not, why not? Do you believe further guidance is required in this sub-section? If so, what?

Question 4

Are you supportive of the adaption to Strategy recommended disclosure c) to remove the revenue size thresholds consideration for robust scenario analysis; and instead apply this guidance in deciding the level of detail for climate scenario analysis? Do you believe further guidance is needed in this section? If so, what?

Question 5

Are you supportive of the application guidance setting a common reference periods of mid-century (2050s)? If not, why not? Which alternative reference period (or anchor point) would you suggest, if any?

Question 6 a)

Are you supportive of the application guidance setting a common reference period of the end of the century (2080-2100)?

Question 6 b)

Are you supportive of this reference period, only being required where reporting entities:

1. own, manage or regulate significant long-life assets or infrastructure; or,
2. deliver essential public goods and services which are likely to be significantly impacted by climate change; or,
3. set longer term policy which is, or regulate industries/sectors that are, likely to be significantly impacted by climate change.

Do you support the chosen test characteristics. If not, why not? What alternative text characteristics would you suggest?

Is this guidance sufficiently clear for reporting entities? If not, why not?

Question 7

Are you supportive of mandating a total of three reference periods (or points)? Are you supportive of near-term reference periods (or points) being selected by the organisation?

Is this guidance sufficiently clear? If not, why not?

Question 8

Are you supportive of aligning climate scenario analysis with the global warming level/temperature pathways set out by the Climate Change Committee? If not, why not? Do you believe further guidance is needed in this section - including on alternative physical and socio-economic pathways? If so, what?

Question 9

Is the guidance on transition pathways and shadow carbon pricing sufficiently clear? Does this support preparers with this type of analysis and disclosure? If not, what further detail should be added? Are there any other potential or perceived risks which have not been addressed in this guidance?

Question 10

Do you support the approach that scenario analysis is conducted every 3 to 5 years, or more frequently where the assumptions used no longer apply? Is the associated guidance sufficiently clear? If not, why not? Do you believe further guidance is needed in this section? If so, what

Question 11

Is the Climate Scenario Analysis section sufficiently clear? Does the guidance on transition driven pathways, and support preparers with this type of disclosure? If not, what further detail should be added? Do you believe further guidance is needed in this section?

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 ~~2024-25~~2025-26. A three-year phased implementation approach to TCFD recommendations ~~will be~~has been used for central government of which this is the final stage – refer to Annex B for more details.

Scope

This guidance applies to all departments (ministerial and non-ministerial), central government and wider public sector bodies that meet specific criteria or where they have been directed/instructed to follow the guidance by their respective relevant authority¹. 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 set out the disclosure requirements for the first year of implementation. In-scope reporting entities ~~must~~were required to include the following:

- a TCFD Compliance Statement – summarising the extent to which 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) describe the board's oversight of climate-related issues.
 - (b) describe management's role in assessing and managing climate-related issues.

¹ Each relevant authority sets the requirements for entities in their jurisdiction, including HM Treasury for central government bodies, other national governments for their Arms-Length Bodies (ALBs) in the devolved administrations (Scotland, Wales and Northern Ireland), the Department for Health and Social Care (DHSC) for NHS bodies, the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (CIPFA/LASAAC) for local government.

- the TCFD Metrics and Targets recommended disclosure:
 - (b) disclose Scope 1, Scope 2, and, if appropriate, Scope 3 Greenhouse Gas (GHG) emissions, and the related risks -aligning with existing GHG emissions reporting methodologies where appropriate.

Phase 2 ~~of this application guidance sets set~~ out the disclosure requirements for the second year of implementation. In addition to Phase 1 disclosure requirements, Phase 2 includes ~~sd~~:

- the TCFD Risk Management recommended disclosures:
 - (a) describe the organisation's processes for identifying and assessing climate-related risks.
 - (b) describe the organisation's processes for managing climate-related risks.
 - (c) describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.
- the TCFD Metrics and Targets recommended disclosures:
 - (a) disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
 - (c) describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Phase 3 of this application guidance sets out the disclosure requirements for the third year of implementation. In addition to Phase 1 and Phase 2 disclosure requirements, Phase 3 includes:

- the TCFD Strategy recommended disclosures:
 - (a) describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.
 - (b) describe the impact of climate-related risks and opportunities on the organisation's operations[†], strategy, and financial planning.
 - (c) describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or 4°C scenario[†].

[†] Interpretation and adaptations have been made to the TCFD recommended disclosures as set out in subsequent chapters.

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 approximately 4 millimetres per year² 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 collectively as 'annual reports'). An overview of the TCFD framework has been included in [Figure 1.1](#) at the end of this section.

Field Code Changed

Overview

1.3 The government recognised the recommendations of the Financial Stability Board's (FSB's) 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 risks 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

² [State of the UK Climate 2021 - Kendon - 2022 - International Journal of Climatology - Wiley Online Library](#)

principles are being adopted more broadly across different sectors and by international standard setters.

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 assets³ and exposures to climate-related risks.

1.8 The Task Force published their recommendations in 2017⁴, 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 framework⁵ and has mandated TCFD-aligned disclosure for large entities in the private sector⁶.

³ Carbon-related assets are generally considered to refer to assets with relatively high direct or indirect GHG emissions

⁴ FSB's TCFD guidance: www.fsb-tcfd.org/

⁵ www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law

⁶ 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

Figure 1.1 Overview of the TCFD framework



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 public sector annual reports and align climate-related reporting with the private sector.

1.12 In addition, the TCFD recommendations are being adopted as the foundation for new [and developing](#) international sustainability standards ~~(e.g., upcoming/proposed sustainability standards from, including the~~ International Financial Reporting Standards (IFRS) Foundation's International Sustainability Standards Board⁷ (ISSB) and the International Public Sector Accounting Standards Board⁸ (IPSASB). Implementing TCFD's recommendations aligns the UK public sector with global best practice.

Application

1.13 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.

1.14 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. These have been summarised, alongside further guidance, in Annex A.

Implementation approach

1.15 Reporting entities will likely benefit from adopting TCFD-aligned disclosure in a phased approach. This application guidance is also being released in phases. Disclosure requirements for future phases will be released in an updated version of this guidance, with phasing as follows:

Phase 1 (issued July 2023) addressed:

- general principles (including scoping);
- the Governance recommendation and recommended disclosures⁹ (a) and (b);

⁷ ISSB's has issued IFRS-S1 General Sustainability-related Disclosures and IFRS-S2 Climate-related Disclosures www.ifrs.org/groups/international-sustainability-standards-board/

⁸ IPSASB's consultation on Advancing Public Sector Sustainability Reporting: www.ipsasb.org/publications/consultation-paper-advancing-public-sector-sustainability-reporting

⁹ For brevity and simplicity, recommended disclosure for each of the four pillars have been abbreviated in this guidance. For example, Strategy recommended disclosure c) is occasionally referred to as Strategy c).

- the Metrics and Targets recommended disclosure (b) – where data is available; and,
- the TCFD Compliance Statement requirements.

Phase 2 (this guidance) addresses issued March 2024) addressed:

- 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 (this guidance) addresses:

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

1.16 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.

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

Scope

1.18 Reporting entities must verify whether they are 'in-scope' of this guidance – refer to [Figure 1.2 Flowchart for applying this guidance](#).

Field Code Changed

Central government

1.19 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.

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

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

- more than 500 employees¹⁰; or,
- total operating income and funding received (including grant-in-aid) exceeding £500m; or,
- been instructed by their sponsoring department to follow this guidance.

¹⁰ Full Time Equivalent (FTE) staff averaged across the reporting period.

1.22 This guidance is not mandatory for:

- ALBs not explicitly brought into scope in paragraph (para.) 1.21;
- Other central government bodies where existing TCFD-related regulatory or legislative requirements override this guidance - refer to para. 1.28;
- Wider public sector bodies (unless specifically directed by their respective relevant authority or relevant regulation/legislation – refer to para. 1.24).

Wider public sector

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

1.24 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

1.25 Certain sectors and industries are likely to be more impacted by climate-related issues. TCFD identified certain industries and groups, categorised in Table 1.1 (next page), considered to potentially be most affected by climate change and the transition to a lower carbon economy. Accordingly, the Task Force published supplementary guidance for these industries and groups for recommended disclosures related to Strategy, Risk Management and Metrics and Targets.

1.26 Climate-related issues may similarly impact public sector bodies operating in these industries and groups. Where they are not already brought into scope, or directly impacted by regulation/legislation (para. 1.28), they should strongly consider making TCFD-aligned disclosure.

1.27 Where these activities are not the primary or sole function of the body but might still apply to certain operations, the organisation should assess the overall materiality of the related information and should strongly consider making TCFD-aligned disclosure if this information is material to the organisation as a whole. This assessment should consider:

- The relative importance of the associated climate-related risks (and impacts) from these operations, compared to other risks faced by the organisation.
- The relative size and magnitude of these activities to the entity overall.
- The responsibility and influence of the entity (e.g., policy setting or regulatory role)

1.28 Furthermore, such entities should strongly consider applying the [TCFD Supplementary Guidance](#). Table 1.1 (next page) identifies the specific industries and groups TCFD has provided supplementary guidance to.

Table 1.1 TCFD's Supplementary Guidance for Financial Sector and Non-Financial Groups

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

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

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

1.29 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 disclosure⁶.
- 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

1.30 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.

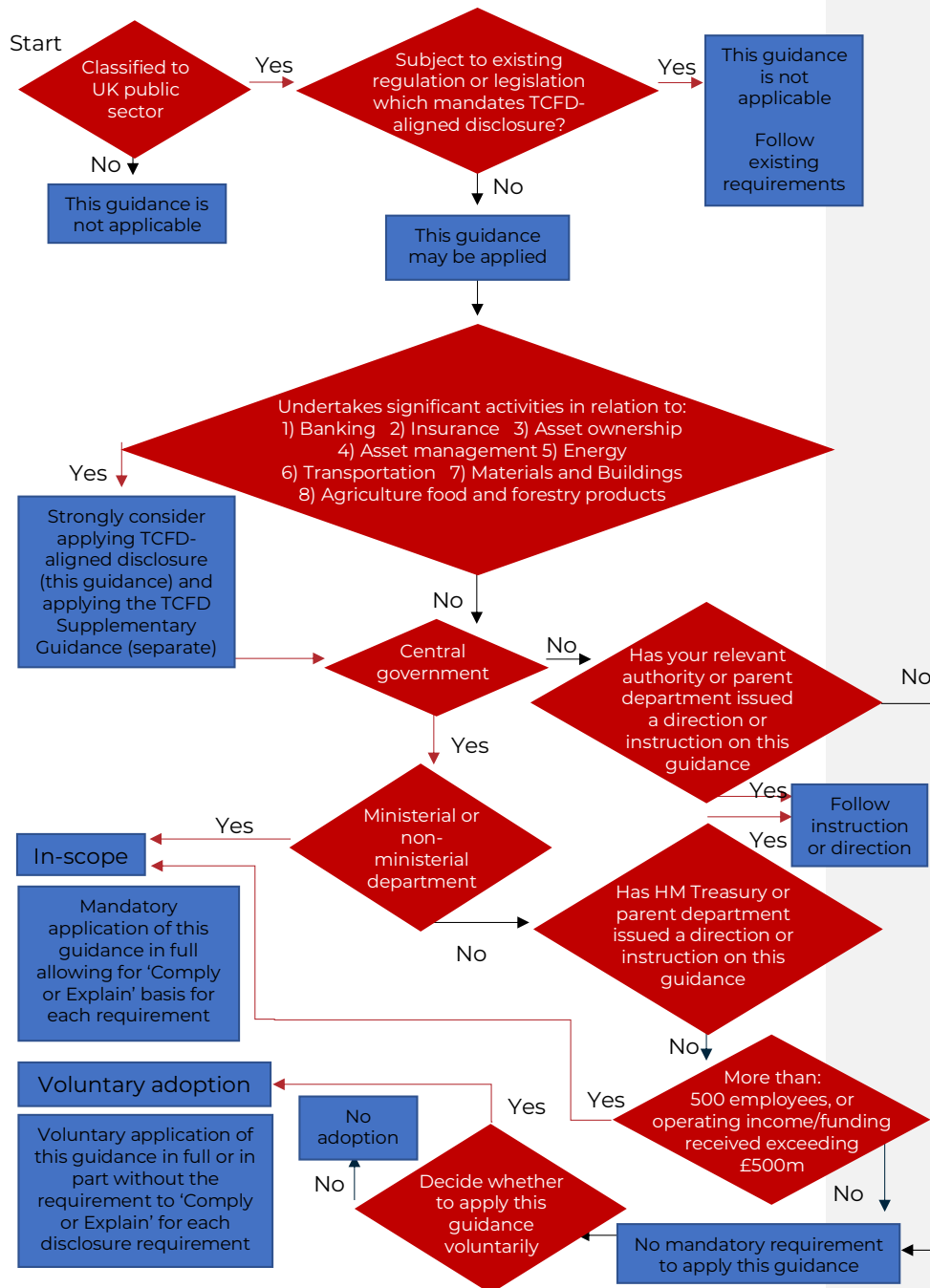
1.31 Where a reporting entity is significantly impacted by climate-related issues, they should consider the need for TCFD disclosure – even where they do not meet the specific criteria for mandatory disclosure laid out in this chapter. In addition to increased transparency for key stakeholders across the four pillars, the related disclosure provides management with decision-useful information.

1.32 Reporting entities that are significantly impacted by climate change should also consider whether other financial reporting disclosures are necessary under IFRS Accounting Standards¹¹.

1.33 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.

¹¹ IFRS published educational material on [effects of climate-related matters on financial statements](#) in July 2023

Figure 1.2 Flowchart for applying this guidance



Concepts and Principles

Comply or explain

1.34 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 the requirements.

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

1.36 Public sector bodies may face challenges to implementation and disclosure (e.g., resourcing constraints, availability of expertise, capacity limitations, data availability, etc.). These need to be balanced with the principles in Managing Public Money (MPM)¹² concerning the use of public funds.

1.37 In rare circumstances, if cost is the reason given for not providing disclosure, the explanation should include enough detail to allow a user to understand why compliance, in that instance, would not deliver value for money.

1.38 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, significant uncertainty, etc.).

1.39 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

1.40 In-scope reporting entities must apply the requirements set out in this guidance on a 'comply or explain' basis at each phase of implementation. Compliance is only required for requirements set out in that phase of the application guidance. Non-compliance must be explained until such time as compliance is reached. Please refer to the Example Compliance Statement (next page).

Compliance Statement

1.41 Reporting entities¹³ 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').

¹² MPM: www.gov.uk/government/publications/managing-public-money

¹³ Reporting entities adhering to the DHSC Group Accounting Manual (GAM) are not required to include a TCFD Compliance Statement. Refer to DHSC GAM for further details.

1.42 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.

1.43 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.

1.44 For example, for Phase 2 a central government department must state which of the recommended disclosures for Governance, Risk Management and for Metrics and Targets have been complied with, and/or explain any non-compliance against each of these recommended disclosures, as well as state progress against the implementation. Refer to Annex B for further information about the phased implementation timetable for central government.

Example: TCFD 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] considers climate to be a principal risk, and has therefore complied with the TCFD recommendations and recommendations disclosures around [sic]:

- *Governance - recommended disclosures (a) and (b)*
- *Risk Management - recommended disclosures (a) to (c)*
- *Metrics and Targets - recommended disclosures (a) to (c)*

This is in line with the central government's TCFD-aligned disclosure implementation timetable for Phase 2. [Entity] plans to provide recommended disclosures for Strategy in future reporting periods in line with the central government implementation timetable.

1.45 In addition, organisations may use the Compliance Statement to provide a broader context on their climate-related financial disclosures, for example, uncertainty in their assumptions, connectivity with other sections of their annual report, differentiating between qualitative and quantitative responses, etc.

Primary users and materiality

1.46 Reporting entities must consider whether climate-related issues ~~are and information is~~ material - to the users of the accounts. In making this assessment, the focus should be on the primary users.

~~Nevertheless, certain TCFD disclosures are required independent of a Materiality assessment as they are fundamental to understanding an organisation's ability to manage climate-related risks—refer to para. 1.52.~~

Primary users

~~1.47 For central government annual reports and accounts, Parliament is the primary user. HM Treasury requires central government bodies to disclose material climate-related information in their annual reports and accounts.~~

~~1.47.48~~ Relevant authorities across the public sector require material information in annual reports; however, the decision on who constitutes a primary user may vary. Consequently, relevant authorities may set different requirements concerning where to report information and at what level of detail.

~~1.48.1 For central government annual reports and accounts, Parliament is the primary user. HM Treasury requires central government bodies to disclose material climate-related information in their annual reports and accounts.~~

Materiality

1.49 Information is material if its omission or misrepresentation could reasonably be expected to influence the decisions primary users take based on the annual report as a whole. As a general principle, reporting entities should disclose material financial and non-financial information in the annual report that is necessary for the understanding of the performance and accountability of the entity.

1.50 Materiality assessments of climate-related information should be consistent with the materiality assessment of other information included in their annual report (and accounts).

1.51 Across the UK public sector, different reporting channels are used for different reporting purposes. This may ~~also~~ impact judgements on what information is included in the annual report, and in what level of detail.

Materiality assessments

Climate as a material topic

1.52 Parliamentary focus on climate change has increased with various committees, Commons debates and parliamentary questions on the topic. Similarly, there has been an increased interest from the public and other stakeholders.

1.53 While annual report preparers need to exercise judgement when considering materiality, the Task Force ~~necessitates~~requires disclosures related to the Governance and Risk Management pillars, as well as Metrics and Targets recommended disclosure (b) ~~on~~ on Scope 1¹⁴ and Scope 2 GHG emissions only ~~to~~ to be included in annual reports, without being subject to a further materiality assessment.

~~1.53~~1.54 This information is fundamental to understanding an organisation's ability to manage climate-related risks. This guidance aligns with TCFD's view on materiality.

	Governance		Strategy			Risk Management			Metrics and Targets		
	(a)	(b)	(a)	(b)	(c)	(a)	(b)	(c)	(a)	(b)	(c)
Not subject to materiality assessment	■	■				■	■	■		■	■
Subject to materiality assessment			■	■	■				■		■

~~Scope 1 and 2 GHG emissions only~~

Materiality assessment

1.55 Materiality assessments require an assessment to establish an organisation's exposure and vulnerability to climate-related issues, and whether these constitute a principal risk (or significant component of a principal risk) for the organisation. Refer to Chapter 3 for further guidance on principal risks.

~~1.56 Other recommended disclosures - Strategy (a) to (c) and Metrics and Targets (a) and (c) - are subject to a materiality assessment. Where the reporting entity does not consider climate as a principal risk, these recommended disclosures are not considered material. In such instances, reporting entities must provide appropriate explanations in their TCFD Compliance Statement to ensure this is clear to annual report users - in line with this application guidance.~~

~~1.54~~1.57 There may be capacity, data availability or other challenges, which hinder an in-scope reporting entity from disclosing this information in the reporting period. Any such non-compliance should be explained in the TCFD Compliance Statement.

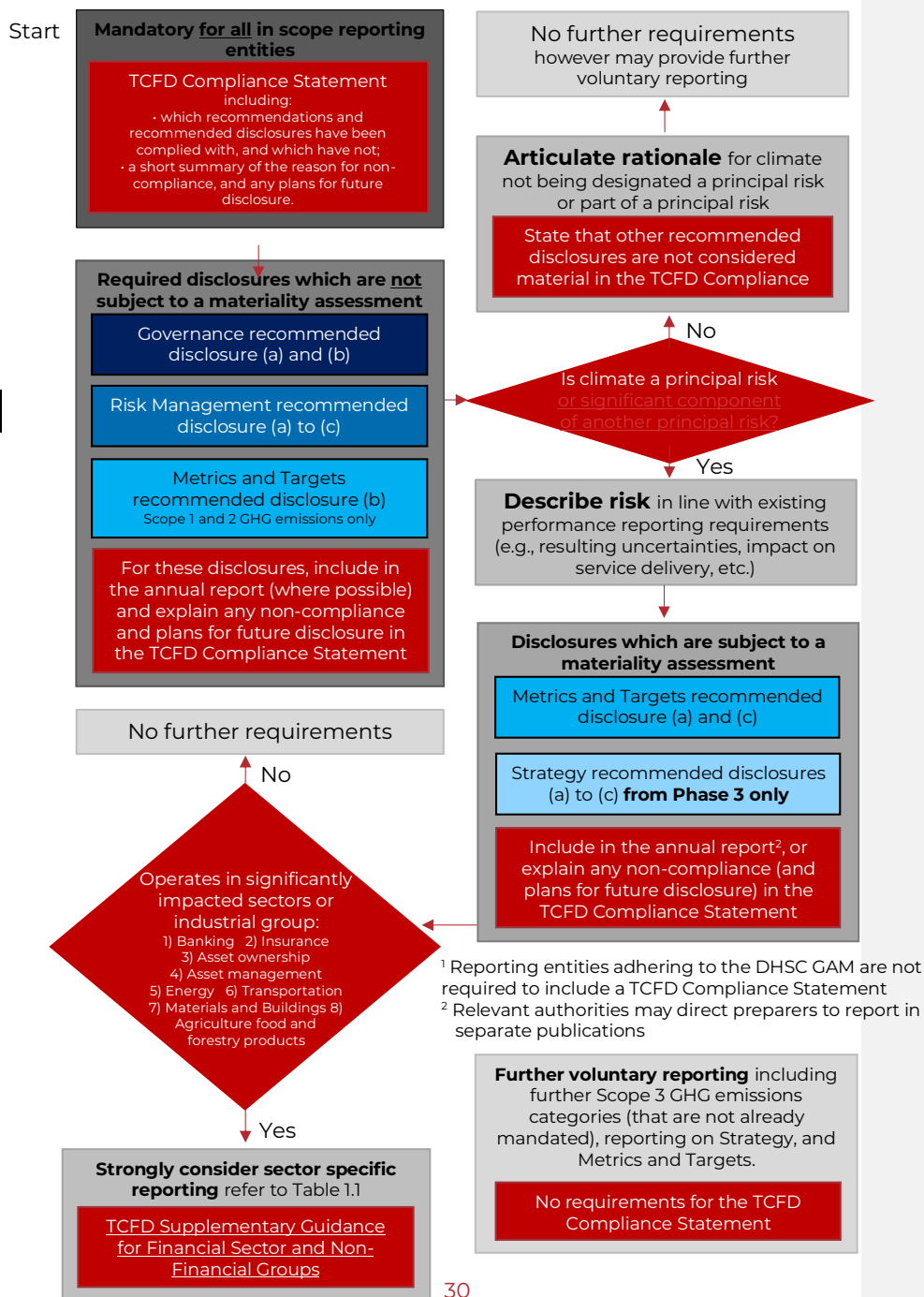
~~1.55~~1.1 Other recommended disclosures - Strategy (a) to (c) and Metrics and Targets (a) and (c) - are subject to a materiality assessment. Where the reporting entity does not consider climate as a principal risk, these other recommended disclosures are not considered material. In such instances, reporting entities must provide appropriate explanations in their TCFD Compliance Statement to ensure this is clear to annual report users - in line with this application guidance.

¹⁴ The GHG Protocol defines emission scopes. An Overview of GHG Protocol scopes and emissions across the value chain has been included in Annex A.

1.561.58 Reporting entities should avoid applying a checklist approach to materiality and should consider the needs of users when judging what is material¹⁵. Irrelevant or superfluous information which is either common knowledge or fails to add value to the primary user's understanding of the organisation reduces the annual report's effectiveness. Please refer to [Figure 1.3 Summary of disclosure requirements](#)

¹⁵ April 2019: Government Financial Reporting Review: www.gov.uk/government/publications/the-government-financial-reporting-review

Figure 1.3 Minimum requirements for in-scope reporting entities



Broader considerations

[1.571.59](#) The government and wider public sector bodies act in the public interest. Public sector bodies have wide-reaching responsibilities with respect to the UK population, the environment, and the economy. These duties may be implicit or laid out in policy, regulation, or statute.

[1.581.60](#) Organisations should consider the wider impact of climate-related risks on their broader responsibilities, as well as their direct objectives and priority outcomes.

Sphere of influence

[1.591.61](#) Public sector bodies may have fiscal, legislative, or regulatory powers to influence the wider ecosystem in which they operate. Primary users of public sector annual reports are likely to be interested in the broader risk environment, which may extend to the impact on the UK economy, the public and the environment relevant to the entity. Consequently, while the TCFD recommendations are entity-level disclosures, organisations should consider external impacts to their wider organisational strategy.

[1.601.62](#) When considering how to implement TCFD recommendations, reporting entities must apply judgement in setting relevant boundaries. Their breadth will depend on the specific circumstances (e.g., their activities, relationships, stakeholders, etc.). The disclosure is likely to develop over successive iterations, as the organisation's understanding on this topic deepens.

[1.611.63](#) For performance reporting, the Chartered Institute of Public Finance and Accountancy (CIPFA)¹⁶ set out an example approach for considering the components of 'materiality' for public sector organisations, which may be useful:

- **Impact** - information on the positive and negative impacts of the organisation on the global achievement of the UN Sustainable Development Goals (SDG).
- **State of the environment/outcomes of policies** - information on the state of the economy, society and the environment under the organisation's jurisdiction and other information on policy outcomes.
- **Outcomes/effectiveness** - of programmes and policies.
- **Value creation** - information concerning the creation of long-term value for the organisation, economy, society and the environment.
- **Financial accountability/value for money** - information concerning spend on social, economic and environmental activities.

¹⁶ CIPFA's Public Sector Reporting: time to step up: <https://www.cipfa.org/protecting-place-and-planet/sustainability-reporting>

Information location

Publication

[1.621.64](#) The TCFD recommends that material climate-related information is included in an organisation's main financial filings to improve the linkage and consistency between the information included in the narrative/performance reports and the financial statements. For example, where there are material financial impacts driven by climate change or the transition to net zero, these may link to narrative information on management's management of related risks in the future. Integrated annual reports, which include both performance and financial information, encourage better financial management¹⁷.

[1.631.65](#) The Task Force recommends using separate TCFD reports for certain industries (identified in Table 1.1) where disclosed information is not yet deemed material. While this application guidance is for annual reports, with a focus on information material to primary users, reporting entities may choose to report information which is not yet deemed material in a separate report - signposting where appropriate.

Position

Reporting entities in central government must include the TCFD section in the performance report within their annual reports and accounts - 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 \(FRoM\)](#) for further details.

Interactions with other reporting frameworks

[1.641.66](#) A variety of different reporting frameworks exist in government and across the wider public sector. This guidance has been designed to complement and enable alignment with existing climate - and sustainability-related reporting frameworks. Applying this guidance does not override existing reporting requirements imposed by statute, regulation or other authority.

[1.651.67](#) There may be separate annual reporting requirements, which mandate entity-level sustainability-related information - either as part of an integrated report (e.g., within the performance report) or a separately published report.

[1.661.68](#) Where an entity utilises existing information to fulfil TCFD-aligned disclosure requirements - care should be taken over the scope, boundaries and time period of the information used - ensuring the disclosures are useful and any differences (e.g., on frequency, boundaries) are appropriately explained. Reporting entities are

¹⁷ December 2013: Review of Financial Management in Government:
www.gov.uk/government/publications/review-of-financial-management-in-government

encouraged to align with existing frameworks for comparability and consistency everywhere that is possible, relevant and useful to users.

Cross-referencing within integrated entity-level reports

1.671.69 Where existing disclosure requirements (in annual reports) align closely with the TCFD's recommended disclosures, reporting entities should apply judgement in deciding whether the TCFD requirements have already been met – including cross-references where applicable.

1.681.70 Where existing elements of the annual report contribute to the content of the TCFD disclosures, such as content in the Governance Statement contributing to the disclosures under the governance pillar, preparers should cross reference to content elsewhere in the report rather than duplicate content for the basis of the TCFD recommended disclosures. Concise annual reports, which focus on the needs of the primary user and avoid unnecessary or duplicative information, improve overall effectiveness.

1.691.71 Where cross-referencing is used, the entity may wish to explain the nature of the relationship or interdependency, rather than just highlighting the existence of the relationship or interdependency¹⁸.

Signposting to external reports and publications

1.701.72 Where separate reporting channels¹⁹ for sustainability-related information and data exist, these are often used by the organisation to assess and manage climate-related issues. This information should be included in the annual report where it is deemed material to the primary user – unless a respective relevant authority has directed otherwise (e.g., by DHSC in the Group Accounting Manual (GAM)).

1.711.73 The performance report should be considered the top layer of information for primary users. Some users may, however, want a greater level of detail.

1.721.74 Where external reports contain relevant information for the recommended disclosures, entities are not required to duplicate this information ~~in this part of the annual report.~~ Entities ~~can~~may choose to signpost to the content of external reports for the basis of compiling these TCFD disclosures.

1.75 This may be useful where in-scope reporting entities prepare additional annual reports for specific purposes (e.g., on officer responsibilities, on funds, etc.). However, the reporting entity must ensure coverage of the relevant material information (e.g., bespoke internal processes, balances) for the related purpose.

¹⁸ FRC, July 2018, Guidance on the Strategic Report: <https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/annual-corporate-reporting/guidance-on-the-strategic-report/>

¹⁹ This may include the GGCs, NHS Greener plans for example.

[1.731.76](#) Signposting to external reports enables users to 'drill down' to detailed complementary information that is related to a matter in a particular component, but that is not necessary to effectively communicate the material or mandated information. Signposting to such information should make clear that it does not form part of the component from which it is signposted. Note, however, that excessive signposting can reduce the clarity of the report.

Reporting boundaries

Risk reporting and more qualitative requirements

[1.741.77](#) While TCFD is an entity-level framework, users of annual reports need to understand the wider context for climate-related risks and opportunities. Consequently, reporting entities should consider the risks and opportunities which it can be significantly impacted by or have a significant impact on. Nonetheless, reporting boundaries for performance reporting are often less well defined, compared to IFRS [Financial Reporting Accounting](#) Standards.

[1.751.78](#) Climate-related information should provide a holistic view across a group, considering the principal climate-related risks from the point of view of the reporting entity. For example, central government departments should apply their own risk appetite and risk management procedures to determine the relative significance of climate-related risks to the group.

[1.761.79](#) Where in-scope reporting entities are unable to report for their group, they should provide an explanation.

Metrics, targets, financial information and other quantitative requirements

[1.771.80](#) Where disclosure requirements are quantitative in nature (e.g., metrics and targets, impacts of climate on financial planning, performance and position, etc.), the reporting boundary should be set at the reporting entity level. However, quantitative information on the wider group the reporting entity is a part of may be appropriate (where possible), where there is a significant impact on the reporting entity (e.g., for future funding).

[1.781.81](#) For Metrics and Targets recommended disclosures, the reporting boundary should be set at the reporting entity level (e.g., for central government in line with the GGCs). However, where existing reporting framework consolidate information, this may not be possible. For example, NHS England provide emissions estimates for the NHS in England - consequently signposting to the external report is more appropriate. A clear explanation of the reporting boundary should be provided for quantitative information, where this is not at an individual entity level.

Assurance

[1.791.82](#) As the TCFD-aligned disclosures are within the annual report, it is within the scope of the auditor's opinion on 'other

information'. Under auditing standards²⁰, the auditor reads other financial and non-financial information and considers whether it is materially inconsistent with the financial statements, the knowledge they acquired through the audit, or otherwise appears to be materially misstated.

~~1.80~~1.83 However, the TCFD-aligned disclosures, in their own right, are not subject to an assurance opinion from the auditor. The auditor will not perform audit procedures on the underlying TCFD information.

~~1.81~~1.84 Across the public sector, the accountable officer (e.g., Accounting Officer or Chief Financial Officer) takes ultimate responsibility for what is included in annual reports. Appropriate internal review processes and assurance should be in place to ensure the accuracy of the information included – including for TCFD-related disclosures.

²⁰ Under ISA 720, the auditor provides a negative opinion on the other information.

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 in assessing the adequacy and effectiveness of an organisation's board to oversee, evaluate and manage climate-related issues.

Materiality

2.3 In-scope bodies should provide the recommended disclosures for Governance – refer to para. 1.47 to 1.55. The level of detail provided remains at the discretion of preparers but should meet the needs of the primary users of annual reports.

Applicability

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

2.5 While the Code of Good Practice²¹ has embedded the 'department board model' into central government departments; 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.

²¹ www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017

Recommended disclosures

2.6 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.

2.7 This section outlines the TCFD recommended disclosures (in red boxes) for Governance, with the 'Supporting guidance from TCFD' (in red). The supporting TCFD guidance includes minor public sector interpretations and adaptations (in italics) and is explained in Annex A.

2.8 Public sector considerations and 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 and identified good practice from the TCFD review on private companies conducted by the Financial Conduct Authority²² and Financial Reporting Council (FRC)²³.

Recommended disclosure for Governance (a)

Board's oversight

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

Supporting guidance from TCFD

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 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.

²² www.fca.org.uk/publications/multi-firm-reviews/tcfd-aligned-disclosures-premium-listed-commercial-companies

²³ www.frc.org.uk/getattachment/65fa8b6f-2bed-4a67-8471-ab91c9cd2e85/FRC-TCFD-disclosures-and-climate-in-the-financial-statements_July-2022.pdf

Public sector considerations and further guidance

2.9 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.).

2.10 Where an authority outside of the organisation has set certain climate policies and specific strategies, the disclosure should include a brief description and may signpost to external information.

2.11 [The Orange Book](#) sets out principles for effective risk management and applies to all central government departments and their ALBs. The guidance is likely to be helpful to other public sector bodies, as the same principles generally apply, with adjustments for context. Section A: Governance and Leadership in the 'Orange Book: Management of Risk – Principles and Concepts' 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 from TCFD

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.

Public sector considerations and further guidance

2.12 In this guidance, management refers to those positions an organisation views as executive or senior management positions and that are generally separate from the board. For central government,

this would include the structures described in the Corporate Governance Report – please refer to the [FReM](#).

2.13 In some cases, a reporting entity's overall climate-related policies and strategies may be determined by another public sector entity, such as departments using their policy setting or regulatory powers. In some cases, organisations may have a governing body within their own structure, or it may be shared with or may be a matrix structure with other public sector bodies. The entity should provide disclosure for a user to understand the structure and level of oversight the governing body provides for the entity specifically and may signpost to external sources.

2.14 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.

2.15 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.

2.16 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.

2.17 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).

2.18 The level of detail and/or cross-referencing to elsewhere in the accounts may depend on the extent to which climate policies and their risks and opportunities are addressed by the same governance processes, controls and procedures detailed elsewhere in the accounts as well as the extent to which specific climate policies and strategies have been established.

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 – refer to [Chapter 4](#).

Chapter 3

Strategy

3.1—HM Treasury intends to publish TCFD 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.

3.1 An organisation's strategy establishes a foundation against which it can monitor and measure its progress in reaching a desired future state. Strategy formulation generally involves establishing the purpose and scope of the organisation's activities and the nature of its businesses, taking into account the risks and opportunities it faces and the environment in which it operates. A strategy is a plan or approach which is intended to help the entity achieve an objective.

3.2 Stakeholders need to understand how climate-related issues may affect an organisation's operation, strategy, and financial planning over the short, medium, and long term.

Recommendation for Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's operations²⁴ businesses, strategy, and financial planning where such information is material.

3.3 A description of the strategy for achieving an entity's objectives provides insight into its development, performance, position and future prospects. This, alongside existing performance and narrative²⁴ reporting requirements on objectives, puts strategic information into context, allowing stakeholders to make an assessment of its appropriateness.

Overview

3.4 This chapter focuses on the qualitative and quantitative disclosures concerning an organisation's identified climate-related

²⁴ For simplicity, this document refers to narrative and performance reports collectively as performance reports throughout this guidance.

issues and their impacts. This chapter also tackles climate scenario analysis, identifying common anchor points and scenario pathways to be used.

Materiality

3.5 The reporting requirements for the strategy recommended disclosures remain subject to materiality – except where they are specifically mandated by other reporting requirements (i.e., in regulation or legislation, or by relevant authorities).

3.6 Organisations may utilise financial materiality applied to the accounts in considering whether financial information is material. Organisations must, however, consider the importance of the narrative information to primary users when assessing whether to include climate-related information.

Applicability

3.7 This aligns with existing risk reporting in annual accounts across the UK public sector. For central government, the FReM requires reporting entities to disclose information on their principal, new and emerging risks; how they have and are likely to change; and their impact on the organisation’s performance and delivery at present and in the future. Reporting entities also provide narrative information on achieving strategic objectives. Similar risk reporting exists across the UK public sector.

Principal, new and emerging risks

3.8 Understanding climate-related risks is essential for understanding the resilience of an organisation’s strategy to climate change and the transition to net zero. This section draws from existing risk reporting for annual reports – on principal, new and emerging risks. Information on the organisation’s processes for identifying, assessing, and managing climate-related risks is covered in Chapter 4.

Risks identification and assessment

3.9 For risk assessments, organisations should consider the potential impact and probability of the related events, and the timescale over which they may occur.

Climate as a (standalone) principal risk

3.10 A principal risk is a risk or combination of risks that can seriously affect the performance, future prospects or reputation of an organisation.

3.11 In deciding which risks are principal risks, the board should focus on those risks that, given the organisation’s current position, could result in events or circumstances that might threaten the organisation’s operational model, future performance, funding and reputation, irrespective of how they are classified or from where they arise.

3.12 The number of principal risks should generally be relatively small. While risk registers may contain a comprehensive list of risks that may affect the organisation, primary users require an overview of those risks which the board considers as the most important to the organisation.

Climate as a significant component of a principal risk

3.13 Climate risk may be a standalone risk category or considered within other existing risk categories. Where climate change (or the transition to net zero) is a significant component of a principal risk, the information will be material to primary users – requiring recommended disclosures for Metrics and Targets a) and c); and Strategy a) to c).

Climate as a new or emerging risk

3.14 Emerging risks include risks whose impact and probability are difficult to assess and quantify at present, but which could affect the organisation in the future²⁵.

3.15 While climate risk is well established, climate-related risks will continue to emerge over time. Emerging risks constantly change, can materialise quickly, and can significantly affect the organisation and its operations. Procedures must be in place for continuous monitoring of these risks to allow the organisation to adapt or develop appropriate actions.

Climate as a cross-cutting risk

3.16 The impacts of climate change are broad and wide reaching. Climate may not be deemed to be a principal risk, but instead considered a cross cutting risk – significantly impacting a number of other risks across a range of areas.

Risk reporting

3.17 Under existing performance reporting requirements, UK government and public sector bodies are required to report on an organisation's principal risks, often with additional disclosure requirements on new and emerging risks²⁶.

3.18 Significant changes in these risks such as a change in likelihood, probable timing, or possible effect - or the emergence of new risks - should be highlighted and explained. This might include a description of the likelihood of the risk, an indication of the circumstances under which the risk might be most relevant to the entity, and its potential impact.

²⁵ Definitions and guidance on principal, new and emerging risks draw from the FRC's guidance on the Strategic Report, The Code, other guidance. These are used to develop public sector performance and narrative reporting.

²⁶ UK public sector reporting requirements have been driven by Section 414CB of the Companies Act 2006 which requires a description of the principal risks relating to environmental matters, including how an entity manages the principal risks.

3.19 Climate-related risks often develop and evolve over longer time horizons. Similarly, the government and public sector usually operate over long-time horizons, working to deliver longer term outcomes. Reporting should consider how these risks are likely to intensify over time.

Climate as a principal risk

3.20 If climate change (or the transition to net zero) is identified as a principal risk for the organisation, then the reporting entity must describe the risk, including related uncertainties facing the organisation.

3.21 Where a climate-related risk could significantly impact the delivery of an organisation's objectives and outcomes, disclosure should provide a clear explanation of the risk and potential impact. Disclosures should provide users with information which is specific to the organisation's circumstances.

3.22 Central government bodies, specifically, are required to disclose how principal risks have changed over the reporting period, their impact on priority outcomes and delivery, and any mitigation strategies applied, as well as disclosure of any emerging risks and their likely impact on performance – refer to the FReM.

3.23 An explanation of how the principal risks and uncertainties are managed or mitigated should also be included to enable primary users to assess the impact on the future prospects of the organisation. This is covered in more detail in Chapter 4.

Climate as a significant component of another principal risk

3.24 Where climate change (or the transition to net zero) forms a significant component of another principal risk, then the reporting entity must describe its impact on the other principal risk, using cross-referencing in annual report where appropriate.

Climate as a new or emerging risk

3.25 Reporting entities must apply new and emerging risk reporting requirements for climate, where relevant. Central government bodies are required to provide information on how the likelihood or possible impact of new and emerging risks has changed.

Climate as a cross cutting risk

3.26 Reporting entities should provide relevant information to primary users to understand the impact of climate change as a cross cutting risk.

3.27 In such circumstances, organisations may choose to apply existing risk management procedures – without setting bespoke climate-related procedures. The integration of these cross-cutting risks should be described in Risk Management recommended disclosure c) – refer to Chapter 4.

Risk prioritisation

3.28 Reporting entities should clearly set out the relative importance of climate-related risks, compared both with each other and other non-climate risks. They should also set out their assumptions for assessing and prioritising the risks, including judgements on what is material - refer to Strategy recommended disclosure a).

Climate as principal risks

Climate as a principal risk

Where climate change (or the transition to net zero) is a principal risk, the reporting entity must describe the risk in line with existing performance reporting requirements (e.g., impact on objectives and outcomes, resulting uncertainties, impact on service delivery, etc.).

Climate as a significant component of a principal risk

Where climate change (or the transition to net zero) is as a significant component of another principal risk, appropriate information must be included for primary users to understand the impact - with cross-referencing, where appropriate.

Climate not a principal risk or significant component of a principal risk

Where climate is not designated a principal risk (or part of a principal risk) reporting entities must articulate their rationale and comply with other relevant risk reporting requirements (i.e., on new or emerging risks).

The risk reporting requirements first introduced in Phase 2 in Chapter 4, have been moved to this chapter and expanded to include further guidance on principal risk considerations. This information links and provides an introduction to Strategy recommended disclosure a) and b) on time horizons and impacts respectively.

Question 1 - *Is the Principal, new and emerging risk section sufficiently clear? Does the guidance on risk assessments, risk reporting and risk prioritisation adequately set out the expectation and disclosure requirements, and support preparers? If not, what further detail should be added?*

Recommended disclosures

3.29 This section sets out the TCFD's recommended disclosures for Strategy (in red boxes), with 'Supporting guidance from TCFD' (in red).

3.30 Interpretations or adaptations have been made to the Strategy recommended disclosures c) and the 'Supporting guidance from TCFD' for Strategy recommended disclosures (a) to (c). Updated references (denoted in italics) have been made to recommended disclosures. The 'Public sector considerations and further guidance' sections provide additional information to annual report preparers.

Recommended disclosure for Strategy (a)

Time horizons

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

Supporting guidance from TCFD

Organisations should provide the following information:

- a description of what they consider to be the relevant short-, medium-, and long-term time horizons, taking into consideration the useful life of the organisation's assets or infrastructure and the fact that climate-related issues often manifest themselves over the medium and longer terms;
- a description of the specific climate-related issues potentially arising in each time horizon (short, medium, and long term) that could have a material financial impact on the organisation; and
- a description of the process(es) used to determine which risks and opportunities could have a material financial impact on the organisation.

Organisations should consider providing a description of their risks and opportunities by sector and/or geography, as appropriate. In describing climate-related issues, organisations should refer to Tables A1.1 and A1.2 in Annex A.

Public sector considerations and further guidance

3.31 Reporting entities that have identified climate as a principal risk (or part of a principal risk), should describe the related risks (and opportunities) - noting whether they are expected to occur in the short, medium, and/or long-term time horizons.

Climate-related issues

3.32 This chapter covers the assessment, monitoring, management and reporting of climate-related risks and opportunities – collectively referred to as 'climate-related issues'.

3.33 Strategy recommended disclosures a) - and b) covered in the next subsection - should draw from and link to the existing risk

reporting on principal, new and emerging risks addressed earlier in this chapter – refer to para. 3.8 onwards.

3.34 Assessing climate-related opportunities enables the development of proactive strategies that enhance the resilience of the organisation. Reporting entities must provide information on climate-related opportunities and how they are managed, ensuring information is fair, balanced, and understandable. Balanced disclosure should focus on climate-related opportunities that are material – considering their likelihood, timing and potential impact on the organisation, its operations, its finances and strategy. The relative significance of the climate-related opportunity should also be clear to annual report users.

Time horizons

3.35 In addition to considering the severity and likelihood of climate-related risks, opportunities, and impacts, organisations should also consider their timing.

3.36 The time horizons applied to Strategy recommended disclosure a) should align with the organisation's existing strategic and business planning time horizons, enabling improved integration into existing risk management processes and strategy, and consistency across the annual report.

3.37 Organisations tailor business and strategic planning time horizons based on entity-specific factors. When setting time horizons for Strategy recommended disclosure a), reporting entities should consider the useful life of assets and infrastructure, noting that climate-related issues often manifest themselves over the medium- and long-term.

3.38 Climate scenarios analysed for Strategy recommended disclosure c) supports longer-term horizon scanning for climate-related risks - refer to para. 3.57.

We are not proposing adaptations to Strategy recommended disclosure a) or the Supporting Guidance from TCFD. However, the public sector considerations and further guidance adds further clarification and details on time horizons, impacts with respect to broader public sector considerations, and opportunities.

Question 2 a) - Do you support our approach to not adapt Strategy recommended disclosure a) or the Supporting Guidance from TCFD? If not, why not?

Question 2 b) - Is the additional detail on time horizons, impacts with respect to broader public sector considerations, and climate-related opportunities sufficiently clear? Do you support this public sector interpretation? If not, why not?

Recommended disclosure for Strategy (b)

Impacts

Describe the impact of climate-related risks and opportunities on the organisation's ~~businesses~~ operations[†], strategy, and financial planning

Supporting guidance from TCFD

Building on recommended disclosure (a), organisations should discuss how identified climate-related issues have affected their operations[†] ~~businesses~~, strategy, and financial planning.

Organisations should consider including the impact on their operations[†] ~~businesses~~, strategy, and financial planning in the following areas:

- Products and services
- Supply chain and/or value chain
- Adaptation and mitigation activities
- Investment *and grants*[†] in research and development
- Operations (including types of operations and location of facilities)
- Acquisitions or divestments
- Access to capital

Organisations should describe how climate-related issues serve as an input to their financial planning process, the time period(s) used, and how these risks and opportunities are prioritized. Organisations' disclosures should reflect a holistic picture of the interdependencies among the factors that affect their ability to create value over time.

Organisations should describe the impact of climate-related issues on their financial performance (e.g., income, expenditure[†] ~~revenues, costs~~) and financial position (e.g., assets, liabilities). If climate-related scenarios were used to inform the organisation's strategy and financial planning, such scenarios should be described.

Organisations that have made GHG emissions reduction commitments, operate in jurisdictions that have made such commitments, or have agreed to meet *primary users*[†] ~~investor~~ expectations regarding GHG emissions reductions should describe their plans for transitioning to a low-carbon economy, which could include GHG emissions targets and specific activities intended to reduce GHG emissions in their operations and value chain or to otherwise support the transition.

Non-financial grouping guidance

Organisations should consider discussing how climate-related risks and opportunities are integrated into their:

1. current decision-making and

2. strategy formulation, including planning assumptions and objectives around climate change mitigation, adaptation, or opportunities such as:

- Research and development (R&D) and adoption of new technology.
- Existing and committed future activities such as investments, restructuring, write-downs, or impairment of assets.
- Critical planning assumptions around legacy assets, for example, strategies to lower carbon-, energy-, and/or water-intensive operations.
- How GHG emissions, energy, and water and other physical risk exposures, if applicable, are considered in capital planning and allocation; this could include a discussion of major acquisitions and divestments, joint-ventures, and investments in technology, innovation, and new business areas in light of changing climate-related risks and opportunities.
- The organisation's flexibility in positioning/repositioning capital to address emerging climate-related risks and opportunities.

Adaptations and interpretations

3.39 Certain public sector interpretations have been made to Strategy recommended disclosure b) and the Supporting Guidance from TCFD in line with Table A.3 in Annex A. The text includes the tracked changes with a + symbol to identify the modified word.

Public sector considerations and further guidance

3.40 Reporting entities that have identified climate as a principal risk, must describe the potential impact pathways of the climate-related risks - identified in Strategy a) – on their organisation, its strategy, and financial planning. Similarly, organisations with climate-related opportunities should describe impacts, while applying an appropriate materiality filter, considering likelihood, impact, and effect.

3.41 While management and those charged with governance may identify, assess, and manage a long list of climate-related risks and opportunities, being selective in which to report, allows the annual report to demonstrate management's view on their relative importance and give the most useful information generally.

3.42 Both opportunities and risks are likely to be scrutinised by primary users. It is important that the annual report is balanced, with the right focus, and not overly optimistic.

Climate-related impacts

3.43 The strategy of government or public sector bodies often extends beyond their operations and assets. Reporting bodies that are responsible for the provision of public goods and services, or the management of infrastructure, must consider the associated climate-related impacts.

3.44 Reporting bodies in policy setting or regulatory roles can have a significant influence on the economy, the environment, and people - through legislation, regulation, guidance, grants, subsidies, taxes and other levers. These interventions, and their effectiveness, may be impacted by climate-related issues. Where deemed material, these must be disclosed in the annual report, applying appropriate cross-referencing.

3.45 Climate change (and the transition to net zero) may impact a policy setter or regulator's strategy – including the effectiveness and outcomes of the bodies' policies and programmes.

3.46 Government and public sector bodies may have committed to goals and objectives (e.g., UN SDGs) outside of their direct remit, or been committed to these by a higher authority - refer to broader considerations.

3.47 Climate-related issues should be considered in the context of existing performance reporting, and their impact on the organisation's wider goals and objectives - where their cross-cutting impact is deemed material for primary users.

Quantification

3.48 Quantifying the financial impacts of climate-related issues enables better financial planning, improves the organisations' understanding, and supports decision makers. Nonetheless, the unpredictability of future impacts – likelihood, effect, and timing - drives uncertainty.

3.49 Organisations are encouraged to disclose quantified financial information, where available, alongside any significant estimates and assumptions that have been used. Due to the level of uncertainty for more distant time horizons, annual reports may use ranges or qualitative scales of severity (e.g., likely financial impact, its duration and the relative significance to the organisation)²⁷.

3.50 High-quality disclosure should be open with users on the level of uncertainty behind any quantitative information and assumptions included in estimates. The comply or explain basis for disclosure may be used where appropriate (e.g., commercial sensitivity). Reporting entities

We are not proposing adaptations to Strategy recommended disclosure b) or the Supporting Guidance from TCFD. Certain public sector interpretations have been added in line with table A.3 in Annex A. The public sector considerations and further guidance adds further clarification on quantification.

Question 3 a) - Do you support our approach to not adapt Strategy recommended disclosure b) or the Supporting Guidance from TCFD? Do you support the interpretations for Strategy recommended disclosure b) and the Supporting Guidance from TCFD? If not, why not?

Question 3 b) - Is the additional clarification and guidance on impacts with respect to broader public sector considerations, and quantification is sufficiently clear? If not, why not? Do you believe further guidance is required in this sub-section? If so, what?

should use their own judgement in making these assessments.

Recommended disclosure for Strategy (c)

Scenario analysis

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or ~~lower~~ and a 4°C scenario[†].

²⁷ An example of scales of severity could be: low, within normal manageable risks in year; medium, with significant financial risks contained with a year or with significant financial impact; large, with significant financial impacts over multiple years; very large, as existential for the organisation.

Supporting guidance from TCFD

Organisations should describe how resilient their strategies are to climate-related risks and opportunities, taking into consideration a transition to a low-carbon economy consistent with a 2°C or lower and a 4°C scenario and, where relevant to the organisation, scenarios consistent with increased physical climate-related risks.

Organisations should consider discussing:

- where they believe their strategies may be affected by climate-related risks and opportunities;
- how their strategies might change to address such potential risks and opportunities;
- the potential impact of climate-related issues on financial performance (e.g., income, expenditure[†] ~~revenues, costs~~) and financial position (e.g., assets, liabilities); and
- the climate-related scenarios and associated time horizon(s) considered.

Refer to Section D in the Task Force's report for information on applying scenarios to forward-looking analysis

Non-financial groups guidance

Organisations with more than one billion U.S. dollar equivalent (USDE) in annual revenue should consider conducting more robust scenario analysis to assess the resilience of their strategies against a range of climate-related scenarios, including a 2°C or lower scenario and, where relevant to the organisation, scenarios consistent with increased physical climate-related risks.

Organisations should consider discussing the implications of different policy assumptions, macro-economic trends, energy pathways, and technology assumptions used in publicly available climate-related scenarios to assess the resilience of their strategies.

For the climate-related scenarios used, organisations should consider providing information on the following factors to allow ~~investors~~ *primary users* and others to understand how conclusions were drawn from scenario analysis:

Critical input parameters, assumptions, and analytical choices for the climate-related scenarios used, particularly as they relate to key areas such as policy assumptions, energy deployment pathways, technology pathways, and related timing assumptions.

Potential qualitative or quantitative financial implications of the climate-related scenarios, if any.

Adaptations and interpretations

3.51 Certain public sector interpretations have been made to Strategy recommended disclosure c) and the Supporting Guidance from TCFD

in line with Table A.3 in Annex A. The text includes the tracked changes with a + symbol to identify the modified word.

Global Warming Levels

3.52 The TCFD Strategy recommended disclosure c) and Supporting Guidance from TCFD has been adapted from 'a 2°C or lower scenario' to 'a 2°C and a 4°C scenario'. This adaptation aligns required scenario analysis with existing UK government climate risk frameworks based on the Climate Change Committee's (CCC's) recommendation²⁸. This change is driven by a shift in focus from transitional risks to physical risks.

3.53 Physical risks are more relevant for government and public sector bodies, who take on the systemic risk of climate change.

Revenue thresholds for conducting robust scenario analysis

3.54 The 'Supporting Guidance from TCFD' has been adapted to remove the threshold of one billion U.S dollar equivalent (USDE) in revenue for organisations to consider conducting more a robust scenario analysis. This application guidance does not set a threshold for more robust scenario analysis, instead setting out specific factors for organisations to consider (e.g., infrastructure, assets, essential service provisions), as well as guidance on quantitative-vs-qualitative analysis.

3.55 Overall size thresholds in terms of defining which bodies in central government are required to follow the TCFD application guidance generally were introduced to align with the UK private sector guidance on climate-related financial disclosure – refer to para. 1.21.

²⁸ <https://www.theccc.org.uk/publication/proposed-methodology-for-the-ccra4-advice/>

Public sector considerations and further guidance

3.56 Where climate is identified as a principal risk (or a significant component of another principal risk), the organisation must apply climate scenario analysis to test the strategic resilience of the organisation to different future plausible climate states - or explain non-compliance.

We are proposing adaptations and interpretations to the Strategy recommended disclosure c) on climate scenario analysis.

We have removed the one billion U.S dollars size threshold on revenue beyond which organisations must consider robust scenario analyses. This application guidance does not set a threshold for more robust scenario analysis, instead setting out specific factors for organisations to consider (e.g., infrastructure, assets, essential service provisions), as well as guidance on quantitative vs qualitative analysis.

Question 4 - *Are you supportive of the adaptation to Strategy recommended disclosure c) to remove the revenue size thresholds consideration for robust scenario analysis; and instead apply this guidance in deciding the level of detail for climate scenario analysis? Do you believe further guidance is needed in this section? If so, what?*

The adaptation on the Global Warming Levels to consider from 'a 2°C or lower scenario' to 'a 2°C and a 4°C scenario' has been addressed later in Question 8.

Climate scenario analysis

3.57 The Task Force defines climate scenario analysis as the process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. Scenarios allow an organisation to explore and develop an understanding of how the physical and transition risks of climate change may impact its businesses, strategies, and financial performance over time.

3.58 A scenario describes a path of development leading to a particular outcome. Scenarios are not intended to represent a full description of the future or to illustrate the full range of uncertainty, but rather to highlight central elements of a possible future and to draw attention to the key factors that will drive future developments. They

are hypothetical constructs, not forecasts, predictions or sensitivity analyses.

3.59 For Strategy c), para. 1.3.2 of TCFD's Guidance on Scenario Analysis states that for time horizons organisations should...

...challenge their thinking about traditional planning horizons, which are often too short. Scenario time horizons are typically longer than many business planning horizons. Scenario time horizons that are too short may result in simple extrapolations of current thinking and trends, and therefore not reveal the information needed to assess the resilience of the organisation's climate-related strategy.

In setting time horizons for its scenario analysis, an organisation should consider:

- time horizons that are compatible with the organisation's (1) capital planning and investment horizons and (2) the useful life of major organisation assets and*
- time horizons that are harmonized or anchored with those of national and international climate policy communities (e.g., 2030 and 2050). Harmonizing company scenario time horizons to key years and the cycle of the climate policy community can provide an important anchor to, and context with, global climate scenarios, as well as enhance comparability.*

3.60 To simplify implementation of TCFD-aligned disclosure across government and the public sector, common anchor points (or reference periods or points) for time horizons and climate scenario pathways have been identified.

3.61 Reporting entities should adopt these anchor points and pathways in their analysis; unless there is a suitably good reason to deviate. The comply or explain basis for disclosure allows organisations to apply alternative anchor points and pathways, as long as this is explained.

Reference periods

3.62 Using common reference periods for climate scenario analysis drives consistency and enables comparability. This guidance identifies common reference periods to be used (e.g., for climate model data), and supports organisations to set their own near term reference periods.

3.63 The Task Force challenges organisations to consider longer term time horizons compared to typical business and strategic planning. Government's responsibilities for stewardship and service provisions necessitate longer-term strategic thinking. The government and public sector owns, manages and regulates significant assets and infrastructure with lengthy useful economic lives.

3.64 Reporting entities that are conducting climate scenario analysis must use at least three different reference periods, including:

- One or two reference periods (or points) for near-term analysis - mandatory for all reporting entities and selected by the organisation.
- mid-century (2050s) – mandatory for all reporting entities.
- end of century (2080s-2100) – mandatory for reporting entities that:
 1. own, manage or regulate significant long-life assets or infrastructure;
or,
 2. deliver essential²⁹ public goods and services which are likely to be significantly impacted by climate change; or,
 3. set longer term policy which is, or regulate industries/sectors that are, likely to be significantly impacted by climate change.

Common reference period – Mid-century (2050s)

3.65 This application guidance recognises 2050s as a common reference period for climate scenario analysis. This is grounded in national and international climate policy communities (i.e., the Paris Agreement³⁰, the UN's Intergovernmental Panel on Climate Change (IPCC)³¹), the national statutory net zero target of 2050 (i.e., Climate Change Act 2008). The CCC also identifies the 2050s in current and proposed Climate Change Risk Assessment (CCRA) methodologies. These are used in climate risk assessment frameworks across the public and private sector (e.g., CCRA, Adaption Reporting Power).

Common reference period – End of the century (2080s-2100)

3.66 Most significant physical climate risks are expected to materialise towards the end of the century.

3.67 Reporting entities responsible for significant long-life assets and infrastructure – or delivering essential public goods and services which are likely to be affected - must analyse and report on the impact of climate change for the end of the century (2080s-2100) reference point.

3.68 The reference period for end of the century of 2080s to 2100 has been left relatively open as different sets of data may group and aggregate over longer time horizons – particularly where there is more uncertainty around outcomes.

Near term analysis

3.69 Reporting entities should set their own near term reference periods (or points) for climate scenario analysis based on entity-specific factors. These will likely overlap with existing business and strategic planning time horizons – and other TCFD recommended disclosures.

²⁹ Essential good and services include those which are essential for the maintenance of societal or economic activities, or that the UK public rely upon, on a daily or near daily basis.

³⁰ <https://www.un.org/en/climatechange/paris-agreement>

³¹ <https://www.ipcc.ch/>

3.70 Organisations that report under other climate risk frameworks may also choose to align their near-term analysis with common reference periods. The Climate Change Committee's (CCC's) CCRA

Setting common anchor points in the application guidance supports preparer in their implementation decisions and reduces the cost and burden – using the same data sets, and applying similar models and approaches.

Question 5

Are you supportive of the application guidance setting a common reference periods of mid-century (2050s)? If not, why not? Which alternative reference period (or anchor point) would you suggest, if any?

Question 6 a)

Are you supportive of the application guidance setting a common reference period of the end of the century (2080-2100)?

Question 6 b)

Are you supportive of this reference period, only being required where reporting entities:

- 1. own, manage or regulate significant long-life assets or infrastructure; or,*
- 2. deliver essential public goods and services which are likely to be significantly impacted; or,*
- 3. set longer term policy which is, or regulate industries/sectors that are, likely to be significantly impacted.*

Do you support the chosen test characteristics. If not, why not? What alternative text characteristics would you suggest? Is this guidance sufficiently clear for reporting entities? If not, why not?

Question 7 – *Are you supportive of mandating a total of three reference periods (or points)? Are you supportive of near term reference periods (or points) being selected by the organisation? Is this guidance sufficiently clear? If not, why not?*

methodology identifies 2030s as a reference period to report against.

Pathways

3.71 This section explores climate scenario pathways. Reporting entities conducting climate scenario analysis must use the two global

warming level pathways set out in the CCC's CCRA methodology (refer to para. 3.73 to 3.77) - or explain where different scenarios have been used and why (e.g., alternative physical, socio-economic or transition pathways).

3.72 As a baseline these should align with current government policy. When new government policy, legislation and regulation is enacted, reporting entities must consider their impact both on the organisation and its strategy using scenario analysis.

Global Warming Levels

3.73 Global Warming Levels facilitate the exploration of future climate projections with a simple framing of *what does the climate look like in a world where global temperatures are 'x' degrees above the pre-industrial period (typically 1850-1900)?*

3.74 The use of warming levels holds substantial policy significance. International climate policies frequently set agreements and targets based on specific warming thresholds to be avoided (e.g., the Paris Agreement's aim for global temperatures to stay below 1.5°C). UK climate policy reflects this approach, with the CCC³² recommending that the UK Government prepare for 2°C of global warming and evaluate the risks associated with 4°C.

3.75 Global warming levels are affected by international action – not just action at a UK level. Even if the UK meets its net zero target, the response globally will have a much more significant impact on carbon concentrations (and warming levels).

3.76 When conducting climate scenario analysis, reporting entities must use the temperature pathways set out in the CCC's CCRA³³ methodology. The proposed CCRA4 methodology has been included in Table A.4 in Appendix A.

3.77 Reporting entities are encouraged to use the most recent CCRA methodology published on the CCC website. Where a previous CCRA methodology has been used by the reporting entity in their most recent assessment, these may be used for the analysis. Reporting entities must state the warming pathways used in the analysis and/or signpost to the methodology applied.

3.78 For certain hazards that do not increase at the same rate as global warming levels, a bespoke approach may be needed. For example, the response time for sea level rise is on the order of centuries, with some level of increase locked-in for the next century and beyond - even if emissions rapidly reach net zero. Therefore, sea level rise is very time dependent as well as temperature dependent. Aligning scenario analysis with national frameworks and leveraging from existing data

³² <https://www.theccc.org.uk/>

³³ The CCC will deliver their fourth independent assessment in 2026. Organisations may use

sets and internal processes, avoids duplication of effort and guidance, and applies a consistent approach across the public sector.

Alternative physical and socio-economic pathways

3.79 Reporting entities may choose to use additional or different pathways or scenario definitions, where deemed appropriate - with appropriate explanation. For example, this could be appropriate where the organisation operates in an industry or sector which uses specific scenario definitions.. The related disclosure must include the details of which scenario has been used and why, alongside any key assumptions. More qualitative scenario approaches are suited to exploring very uncertain, high impact events at certain levels of global warming.

3.80 The IPCC defines climate scenarios in terms of pathways for emissions and socioeconomic factors - with either Representative Concentration Pathways (RCPs) or Shared Socioeconomic Pathways (SSPs). SSPs set general global socio-economic changes to mitigation and adaptation – rather than UK specific.

3.81 IPCC SSP-RCP scenarios form the base for physical risk analysis, providing information relating to emissions (and associated temperature rise) and socioeconomic development for different levels of temperature rise.

3.82 The UK Climate Projections (UKCP18) provides the most up-to-date and highest resolution locality data to assess how the climate of the UK may change. UKCP is provided by the Meteorological Office (Met Office) using a mix of both global warming levels and RCP emissions pathways. In order for entities to easily make use of the full range of UKCP data, warming scenarios with aligned RCP emissions pathways – may allow for better alignment with other relevant government climate-related frameworks (e.g., Adaption Reporting Power).

3.83 Furthermore, where different geographical (e.g., overseas impacts) or industry specific data is needed (or more appropriate), reporting entities may choose to use or combine data sets –explaining this in the annual report disclosure.

3.84 When government policy, legislation and regulation is enacted, reporting entities must consider their impact both on the organisation and its strategy using scenario analysis.

Question 8 - Are you supportive of aligning climate scenario analysis with the global warming level/temperature pathways set out by the Climate Change Committee (2°C and 4°C end of century)? If not, why not? Do you believe further guidance is needed in this section - including on alternative physical and socio-economic pathways? If so, what?

Transition pathways

3.85 Transition pathways offer a different type of analysis for reporting entities to consider, focusing on the risks an entity faces with the transition to net zero. Where entities have a material exposure to transition risk, they should consider whether exploring low and high transition risk scenarios is more useful for users - both decision makers and primary users. Appropriate explanation must be provided alongside these disclosures.

3.86 Where reporting entities have committed (or been committed by an external authority) to a more ambitious net zero target – the implications of this should be considered as part of their climate scenario analysis.

3.87 Policy-setting and regulatory bodies may choose to include transition scenarios, exploring the impact of different net zero transition pathways on their strategy.

Shadow carbon pricing

3.88 Government has published guidance on estimating future carbon values: Guidance on estimating carbon values beyond 2050 and the Supplementary Green Book Guidance on Valuing greenhouse gas emissions in policy appraisal. Organisations may use these figures in their climate scenario analysis.

3.89 The Department for Energy Security and Net Zero (DESNZ) published Traded carbon values used for modelling purposes to 2050 - separated into:

- Low Sensitivity - High Fossil Fuel Prices and Low Economic Growth
- Net Zero Strategy Aligned
- High Sensitivity – Low Fossil Fuel Prices and High Economic Growth

3.90 These carbon values may be used to inform transition scenarios - aligning with government policy, with high and low sensitivity to provide alternative scenarios for analysis purposes.

3.91 These values are based on a specific set of assumptions with respect to the policy mix, cost of fuels, level of emissions etc. These values should not be considered as 'forecasts' of future prices. The disclosure should explain that these are assumptions - and not in themselves government policy.

3.92 Where different transition scenarios have been explored, reporting entities must provide appropriate caveats on the scenario assumptions - to avoid the disclosures being taken as government policy (or pre-empting government policy).

Question 9 – *Is the guidance on transition pathways and shadow carbon pricing sufficiently clear? Does this support preparers with this type of analysis and disclosure? If not, what further detail should be added? Are there any other potential or perceived risks which have not been addressed in this guidance?*

Frequency

3.93 Scenario analysis should be updated every 3 to 5 years, or more frequently if there are any significant developments or events that mean the assumptions used are no longer suitable (e.g., Machinery of Government changes).

We are proposing that scenario analysis is conducted every 3 to 5 years, or more frequently where the assumptions used no longer apply. This frequency balances the burden on reporting entities with the need for current and accurate data - considering other government processes (e.g., Spending Reviews, Climate Change Risk Assessments).

Question 10 - *Do you support the approach that scenario analysis is conducted every 3 to 5 years, or more frequently where the assumptions used no longer apply? Is the associated guidance sufficiently clear? If not, why not? Do you believe further guidance is needed in this section? If so, what?*

Quantitative vs qualitative analysis

3.94 Quantitative climate scenario analysis is preferred, where possible. However, reporting entities may use qualitative analysis – particularly when considering broader impacts on the economy, the

Question 11 - *Is the Climate Scenario Analysis section sufficiently clear? Does the guidance on transition driven pathways, and support preparers with this type of disclosure? If not, what further detail should be added? Do you believe further guidance is needed in this section?*

environment and the public. Please refer to paragraph 3.48 and 3.49 for further details.

Chapter 4

Risk Management

4.1 Risk is the possibility of an event occurring that will have an impact on the achievement of objectives. Effective risk management encompasses a series of coordinated activities strategically designed to oversee and address these risks while upholding internal control within an organisation.

4.2 The UK's public sector exhibits a considerable level of diversity, necessitating a wide spectrum of risk management practices. Overarching principles and concepts as set out in [The Orange Book](#). Organisations must proactively cultivate tailored and efficient risk management, which will naturally vary based on the unique characteristics of the organisation and the dynamics of its operational environment.

4.3 Climate-related risk is the potential negative impact of climate change on an organisation. Climate-related risk management processes [and mitigation strategies](#) should be tailored based on their associated severity, likelihood, and timing. These processes are not static and will need to evolve and mature over time, in tandem with shifts in the risk landscape and as management's comprehension of these risks deepens.

Recommendation for Risk Management

Disclose how the organisation identifies, assesses, and manages climate-related risks.

Overview

4.4 This chapter mainly addresses qualitative disclosures surrounding an organisation's processes for identifying, assessing, and managing climate-related risks, and their integration within the organisation's overall risk management.

4.5 For central government, existing FReM requirements for the performance analysis and the governance statement ~~expect a significant level of detail to be provided regarding~~ [require disclosure on the processes and structures used to identify, evaluate and manage both principal, new and emerging risks, ~~as well as how. Similar requirements exist across the risks and changes in their likelihood and impact may affect performance and delivery in both current and future years~~](#) [UK public sector](#).

Materiality

4.6 In-scope reporting entities must include Risk Management recommended disclosures (a) to (c) in annual reports – on a comply or explain basis - without further application of a materiality filter (para. 1.47 to 1.55).

4.7 This provides annual report users with the information they need to understand the organisation's overall climate-related risk management process; alongside the board and management's judgement of whether climate is a principal, new or emerging risk (or component of a principal risk) - or neither.

Applicability

4.8 Risk management terminology and risk classifications will vary across the UK public sector. Annex 4 of The Orange Book provides examples of risk categories which preparers may wish to consider. The Task Force identified and categorised certain climate-related risks as set out in Annex A. Examples of public sector specific climate-related risks are also included in the annex.

Public sector considerations and further guidance

~~Principal, new and emerging risks~~

Description of climate as principal risk

~~Where climate is a principal risk, the reporting entity must describe the risk in line with existing performance reporting requirements (e.g., impact on objectives and outcomes, resulting uncertainties, impact on service delivery, etc.)~~

~~4.9 — Under existing performance/narrative reporting requirements, UK public sector bodies are required to report on an organisation's principal risks³⁴, often with additional disclosure requirements on new and emerging risks in the performance report.~~

~~4.10 — A principal risk is a risk or combination of risks that can seriously affect the performance, future prospects or reputation of the entity. Emerging risks are those with uncertain outcomes which may become certain in the longer term, and which could have a material effect on the organisational strategy if they were to occur.³⁵~~

³⁴ UK public sector reporting requirements have been driven by Section 414CB of the Companies Act 2006 which requires a description of the principal risks relating to environmental matters, including how an entity manages the principal risks.

³⁵ Definitions align with the Financial Reporting Council's (FRC's) Strategic Report Guidance which has been used to develop public sector performance and narrative reporting: www.frc.org.uk/library/standards-codes.

~~4.11.1 Reporting entities must describe the principal risks and uncertainties facing the organisation which relate to climate change, and any significant impacts on service delivery. Disclosures should provide users with information which is specific to the organisation's circumstances.~~

~~4.12 Where a climate-related risk could significantly impact the delivery of an organisation's objectives and outcomes, disclosure should provide a clear explanation of the risk and potential impact.~~

~~4.13 Climate risks often develop and evolve over longer time horizons. Similarly, the government and public sector usually operate over long-time horizons, working to deliver longer term outcomes. Reporting entities should consider how these risks are likely to change over time when providing disclosure.~~

~~4.14.1 Central government bodies, specifically, are required to disclose how principal risks have changed over the reporting period, their impact on priority outcomes and delivery, and any mitigation strategies applied, as well as disclosure of any emerging risks and their likely impact on performance—refer to the FReM.~~

~~Risk prioritisation~~

Articulate rationale

Where climate is not designated a principal risk (or part of a principal risk) reporting entities must articulate their rationale.

~~4.15 Reporting entities should clearly set out the relative importance of climate-related risks compared with other risks. They should also set out their assumptions for assessing and prioritising the risks, including judgements on what is material. This will support the requirement for Risk Management (a)—refer to the next page.~~

~~4.16 Where climate is not deemed to be a principal risk, the organisation may utilise their usual risk management procedures—without bespoke climate-related procedures. In this instance, and where the risk management process is described in sufficient detail elsewhere in the annual report (e.g., the Governance Statement), the Risk Management recommended disclosures (a) to (c) should utilise this information to avoid duplication, cross-referencing accordingly.~~

~~Climate-related opportunities~~

~~4.17 Assessing climate-related opportunities enables the development of proactive strategies that enhance the resilience of the organisation. While this chapter focuses on climate-related risks—rather~~

[policy/accounting-and-reporting/annual-corporate-reporting/guidance-on-the-strategic-report/](#), as well as the TCFD's guidance.

than opportunities—there is overlap in their assessment and monitoring.

4.18—Reporting entities may wish to provide information on climate-related opportunities and how they are managed, ensuring information is fair, balanced, and understandable. Balanced disclosure should focus on climate-related opportunities that are significant. Further guidance on disclosing climate-related opportunities will be included for the Strategy pillar in [Chapter 3](#).

Recommended disclosures

[4.19](#)^{4.9} This section sets out the TCFD’s recommended disclosures for Risk Management (in red boxes), with ‘Supporting guidance from TCFD’ (in red).

[4.20](#)^{4.10} No interpretations or adaptations have been made to the ‘Supporting guidance from TCFD’ for Risk Management recommended disclosures (a) to (c). Updated references (denoted in italics) have been made to recommended disclosure (b). The ‘Public sector considerations and further guidance’ section provides additional information to annual report preparers - based on common findings and good practice (refer to para. 2.8).

Recommended disclosure for Risk Management (a) Risk identification and assessment

Describe the organisation’s processes for identifying and assessing climate-related risks.

Supporting guidance from TCFD

Organisations should describe their risk management processes for identifying and assessing climate-related risks. An important aspect of this description is how organisations determine the relative significance of climate-related risks in relation to other risks.

Organisations should describe whether they consider existing and emerging regulatory requirements related to climate change (e.g., limits on emissions) as well as other relevant factors considered.

Organisations should also consider disclosing the following:

- processes for assessing the potential size and scope of identified climate-related risks and
- definitions of risk terminology used or references to existing risk classification frameworks used.

Recommended disclosure for Risk Management (b)

Risk management

Describe the organisation's processes for managing climate-related risks.

Supporting guidance from TCFD

Organisations should describe their processes for managing climate-related risks, including how they make decisions to mitigate, transfer, accept, or control those risks. In addition, organisations should describe their processes for prioritising climate-related risks, including how materiality determinations are made within their organisations.

In describing their processes for managing climate-related risks, organisations should address the risks included in Tables [A1.1](#) and [A1.2](#) in Annex A, as appropriate.

[4.24.11](#) The 'Examples of Climate-Related Risks/Opportunities and Potential Financial Impacts' (Table [A1.1](#) and [A1.2](#)) may be less relevant for certain public sector bodies and do not need to be considered if not relevant.

Public sector considerations and further guidance

[4.24.12](#) As well as considering internal risk management processes, reporting entities should also consider whether information from external risk frameworks is relevant for their disclosures. The government and the wider UK public sector report against various risk frameworks. These often include climate change as a risk. Identifying, assessing, and leveraging existing risk frameworks will likely aid and improve disclosure. Further guidance is included in Annex A.

Recommended disclosure for Risk Management (c)

Overall integration

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

Supporting guidance from TCFD

Organisations should describe how their processes for identifying, assessing, and managing climate-related risks are integrated into their overall risk management.

Public sector considerations and further guidance

4.234.13 The organisation must explain how its risk disclosures and management of climate-related risks are integrated into the overall risk management process.

4.244.14 Where climate is identified as a principal risk, then bespoke climate-related risk management is more likely, which will interact with the organisation's overall risk management. Where climate is not ~~identified~~deemed a principal risk but is instead a significant component of another principal risk or a cross-cutting risk, the organisation ~~is likely to~~may manage climate-related risks in the same way as other risks as part of their overall risk management, ~~and may benefit from cross-referencing to the Government Statement.~~

4.15 Where risk management processes are described in sufficient detail elsewhere in the annual report (e.g., the Governance Statement), the TCFD recommended disclosures should utilise this information cross-referencing accordingly to avoid duplication.

Interaction with strategic and other principal risks

4.254.16 Climate risk is often an exacerbation of existing strategic risks (e.g., extreme weather, water shortages, etc.). Climate change may make these risks more likely or the related impacts more serious. Hence, climate change risks should not be considered in isolation and should be clearly integrated into the strategy of an organisation.

4.17 Where an organisations existing risk types are impacted by climate, these cross-cutting risk types are likely to require integration into existing risk management practices.

4.264.18 Reporting entities must apply judgement in deciding which risks should be addressed in the TCFD-aligned disclosures and which are considered as other strategic or principal risks. Linkages between related risk disclosures should be explained - making use of cross-referencing where appropriate.

4.274.19 While this application guidance sets minimum disclosure requirements, the level of detail should be commensurate with the significance of climate-related risks to the organisation. Care should be taken to ensure the TCFD-aligned disclosures are proportional – considering other risks disclosed in the annual report.

Chapter 5

Metrics and Targets

5.1 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.

5.2 Metrics and targets are essential for monitoring performance and tracking progress. The Climate Change Act³⁶ commits the UK government by law to reduce GHG emissions – similar legislation has been set by devolved administrations. Central government and wider public sector bodies may have set their own net zero commitments.

5.3 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.

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

5.4 This chapter comprises primarily quantitative disclosures related to metrics and targets, as well as qualitative information on how the metrics and targets are used by the organisation.

Materiality

5.5 The Task Force requires organisations to provide Scope 1¹⁴¹³ and Scope 2 GHG emissions independent of a materiality assessment and, if appropriate, Scope 3 GHG emissions and the related risks. The disclosure of Scope 3 GHG emissions is subject to a materiality assessment. Further reporting on Scope 3 emissions, beyond the existing categories set out by relevant authorities, is considered voluntary at this time. GHG emission scopes are defined in the GHG Protocol – please refer Annex A for further information.

³⁶ Climate Change Act 2008: www.legislation.gov.uk/ukpga/2008/27/contents

5.6 Other climate-related metric categories remain subject to materiality – except where they are specifically mandated by other reporting requirements (e.g., in legislation, from relevant authorities).

Applicability

5.7 Existing performance reporting across the UK public sector requires disclosure in respect of non-financial and sustainability information. The interlinkage and overlap of climate-related and sustainability-related topics is addressed in [Chapter 1](#).

Public sector considerations and further guidance

Commentary

5.8 Where climate-related targets have been set by an organisation (or on them by an external authority), performance against them should be reported. If performance information has already been published elsewhere, signposting to external sources is acceptable. The related commentary must be clear as to whether performance is improving or worsening and not assume this is clear to the user.

Methodologies and reporting boundaries

5.9 Organisations should ensure they include definitions and methodologies to explain their metrics and targets, particularly where they are organisation-specific.

5.10 Where there are differences in the reporting boundaries for metrics and targets disclosures, these should be explained clearly.

Prior period reporting

5.11 Organisations must provide prior year data to track historical performance. Reporting entities should also provide historical data for past years when doing so enhances the user's understanding of performance.

Baselining

5.12 A base year serves as a reference point for comparing present and past emissions. To keep data consistent, base year figures may be recalculated following significant structural changes.

5.13 When reporting against metrics and targets, it must be clear as to which years have been set as the baseline. Where external cross-sector frameworks (e.g., GGCs for central government) are being used, the same baseline year should be applied for comparability.

5.14 However, there may be instances where a reporting entity sets a new baseline year – either in the absence of one set externally or where significant structural changes (or other changes) have meant a baseline set internally is needed for monitoring purposes. In such instances, reporting entities should explain their choice.

5.15 Where a base year is used for performance monitoring, the base year data must be updated and reported in line with changes in

accounting policies and boundaries. When material changes occur, the prior-year figure reported for comparative purposes must also be updated with an accompanying explanation.

5.16 Prior period comparative information should not go beyond the baseline year.

Broader considerations

5.17 Examples of certain different sustainability measurement types which public sector bodies may choose to use, include³⁷:

- Operational impacts
- Policy effectiveness
- The state of economic, environmental, and social conditions in areas under their jurisdiction.
- Strategies to create value (for the organisation, its stakeholders, lenders, public-private partnerships, and society more broadly)

5.18 When determining what information to include in annual reports, preparers must consider both financial materiality with respect to their accounts and the significance of broader impacts on the organisation's current and future performance with respect to their objectives and strategy.

5.19 The public sector is a sector in its own right - with policy effectiveness, stewardship and value creation forming part of the organisation's strategy, alongside operational impacts. Related disclosures for broader impacts and outcomes should provide a balanced view – noting these are often more challenging to measure and assess.

5.20 The responsibility for setting policy, delivering outcomes, and providing services is often shared by multiple organisations and the boundaries of responsibility may be less clearly defined compared to the private sector – where formal agreements and ownership structures are more common.

5.21 Where information on broader policy and outcomes is relevant, its significance and ability to meet the primary user's needs, must be considered. Summarising this information and signposting to external reports may be more useful – refer to 1.66 to 1.71

5.22 Disclosures related to broader considerations should be clearly separated from disclosures on entity-level operational impacts.

5.23 Organisations are encouraged to consider climate adaptation and resilience, as well as climate change avoidance, when considering Metrics and Targets. This will form a significant component of government's response to climate change.

³⁷ CIPFA's [Public Sector Sustainability Reporting: time to step it up](#); [Public Agency Sustainability Reporting](#), GRI, 2004;

Recommended disclosures

5.24 This section sets out the TCFD's recommended disclosures for Metrics and Targets (in red boxes), with 'Supporting guidance from TCFD' (in red). Interpretations or adaptations have been made to the supporting TCFD guidance for Metrics and Targets recommended disclosures (a) to (c) – explained later in this section (and in Annex A). The 'Public sector considerations and further guidance' section provides additional clarity to annual report preparers, alongside public sector-specific considerations.

Recommended disclosure for Metrics and Targets (a)

Metrics

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Supporting guidance from TCFD

Organisations should provide the key metrics used to measure and manage climate-related risks and opportunities, as described in Tables [A1.1](#) and [A1.2](#) in Annex A, as well as metrics consistent with the cross-industry [*or cross-sector*], climate-related metric categories described in Table [A2.1](#) in Annex A. Organisations should consider including metrics on climate-related risks associated with water, energy, land use, and waste management where relevant and applicable.

Where climate-related issues are material, organisations should consider describing whether and how related performance metrics are incorporated into remuneration policies.

Where relevant, organisations should provide their internal carbon prices as well as climate-related opportunity metrics ~~such as revenue from products and services designed for a low carbon economy.~~

Metrics should be provided for historical periods to allow for trend analysis. Where appropriate, organisations should consider providing forward-looking metrics for the cross-industry [*and cross-sector*], climate-related metric categories described in Table [A2.1](#) in Annex A, consistent with their ~~business operational~~ or strategic planning time horizons. In addition, where not apparent, organisations should provide a description of the methodologies used to calculate or estimate climate-related metrics.

Additional guidance for non-financial groups

For all relevant metrics, organisations should consider providing historical trends and forward-looking projections (by relevant country and/or jurisdiction, business line, or asset type). Organisations should also consider disclosing metrics that support their scenario analysis and strategic planning process and that are used to monitor the

organisation's business environment from a strategic and risk management perspective.

Organisations should consider providing key metrics related to GHG emissions, energy, water and other physical risk exposures, land use, and, if relevant, investments in climate adaptation and mitigation that address potential financial aspects of shifting demand, expenditures, asset valuation, and cost of financing.

5.25 The 'Supporting guidance from TCFD' has been adapted to remove reference to 'revenue goals from for products and services designed for a low carbon economy' which is irrelevant for the vast majority of public sector bodies. TCFD's 'Examples of Climate-Related Risks/Opportunities and Potential Financial Impacts' (in Table [A1.1](#) and [A1.2](#)) may be less relevant for certain public sector bodies - refer to Annex A for further guidance.

Public sector considerations and further guidance

Industry and cross-sector comparatives

5.26 The TCFD framework emphasises the importance of cross-industry-based metrics and targets for comparability. Where a public sector body operates in a specialised industry, they should consider reporting cross industry-based metrics – refer to para. 1.27.

5.27 In addition to the cross-industry metrics, existing sustainability reporting frameworks across the UK public sector, which already require reporting on water, energy, land use, and waste management, may be used to draw cross-sector comparatives (e.g., GGCs for central government, NHS Greener metrics, climate and sustainability-related reporting in the devolved administrations which are often collected outside annual reports).

5.28 The Task Force has published additional Guidance on Metrics, Targets and Transition Plans which provides further information and examples on metrics and targets. Guidance on transition plans is not, however, being opined on in this guidance.

Climate-related performance-based remuneration policy

5.285.29 While the TCFD guidance makes specific reference to incorporating performance measures into remuneration policies, UK public sector bodies may have less flexibility in setting remuneration policies and may be subject to additional controls and limitations.

5.295.30 Furthermore, public sector bodies may have a broader set of levers to drive organisational change. Consequently, guidance on climate-related performance-based remuneration policy may be less relevant in a public sector context.

Internal carbon pricing

[5.305.31](#) Internal carbon price refers to a monetary value on GHG emissions an organisation uses internally to guide its decision-making process in relation to climate change impacts, risks, and opportunities. This represents the external costs of GHG emissions.

[5.315.32](#) The government already uses internal carbon prices ('carbon/emissions values') to evaluate the impact of GHG emissions on policy and programme appraisals. This represents a monetary value that society places on one tonne of carbon dioxide equivalent (£/tCO_{2e}).

[5.325.33](#) These differ from external carbon prices, which represent the observed price of carbon in a relevant market (such as the UK Emissions Trading Scheme).

[5.335.34](#) Reporting entities that use internal carbon pricing should provide relevant disclosure in their annual reports - signposting to external frameworks and sources where appropriate. This may include information on how carbon values (or internal carbon prices) are used to appraise and evaluate policies, programmes or projects, as well as the absolute value.

Recommended disclosure for Metrics and Targets (b)

Emissions

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

Supporting guidance from TCFD

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.

Public sector considerations and further guidance

Existing emissions and climate-related reporting in central government

[5.345.35](#) Currently, the GGCs require certain central government bodies to report on emissions, including Scope 1, Scope 2, and Scope 3 – business travel only. Central government bodies in scope of the GGCs

should align their reporting with the Sustainability Reporting Guidance¹⁴ (SRG), ensuring the same underlying methodology is applied.

[5.355.36](#) At present, further categories of Scope 3 GHG emissions (in addition to business travel) are not required for GGC or SRG purposes. However, central government bodies may choose to report on other GHG emissions sources - which are out-of-scope of the current GGC framework. Some of these emission sources are considered in the SRG³⁸.

[5.365.37](#) Where applicable, central government reporting boundaries should mirror the GGC boundaries. This may differ from the principle set out in para. 1.72.

[5.375.38](#) 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.

Other public sector bodies

[5.385.39](#) Emissions reporting requirements may necessitate new reporting procedures, adapting/extending existing voluntary reporting, or assessing alignment of their existing frameworks with the TCFD guidance. Reporting entities will benefit from considering this early, and relevant authorities should be consulted where appropriate.

Methodologies and reporting boundaries

[5.395.40](#) The GHG Protocol is the most widely used methodology and underpins most emissions reporting frameworks – including the TCFD’s framework.

[5.405.41](#) Reporting entities should provide an explanation of the methodology used to calculate emissions metrics, including whether it is in accordance with the GHG Protocol methodology, the reporting boundaries and highlighting any changes in the basis of reporting. Where organisations align their methodology or reporting boundary with an existing reporting framework (e.g., GGCs for central government) then simply stating this alignment is sufficient.

[5.415.42](#) As there is significant scope for judgement in determining boundaries and which emissions are included, organisations should explain these decisions clearly. This information is expected to be more material where these metrics underpin a major policy or strategy.

Intensity metrics

³⁸ Refer to the [Sustainability Reporting Guidance](#) for guidance on further Scope 3 GHG emissions categories outside of the business travel.

[5.425.43](#) Reporting entities should consider reporting intensity metrics (emissions per chosen unit) and provide clear explanations of the choice of metric.

Scope 3

[5.435.44](#) Organisations may choose to undertake an assessment of Scope 3 emissions. If a reporting entity decides to report further emissions, they must clearly identify which emissions categories are included and ensure this is understandable with historical data. Further information on emissions scopes is included in Annex A.

[5.445.45](#) Where Scope 3 emissions are deemed to be material to primary users, but not disclosed in the annual report - the reporting entity should update their TCFD Compliance Statement, detailing the reason for the omission and setting out the expected timeframe for their inclusion, where appropriate.

Recommended disclosure for Metrics and Targe (c)

Targets

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Supporting guidance from TCFD

Organisations should describe their key climate-related targets such as those related to GHG emissions, water usage, energy usage, etc., in line with the cross-industry *[and cross-sector]* climate-related metric categories in Table A2.1 in Annex A, where relevant, and in line with anticipated regulatory requirements or market constraints or other goals. Other goals may include efficiency or financial goals, *[and]* financial loss tolerances, avoided GHG emissions through the entire *service delivery and product life cycle*, or ~~net revenue goals for products and services designed for a low carbon economy.~~

In describing their targets, organisations should consider including the following:

- whether the target is absolute or intensity-based;
- time frames over which the target applies;
- base year from which progress is measured; and
- key performance indicators used to assess progress against targets.

Organisations disclosing medium-term or long-term targets should also disclose associated interim targets in aggregate or by business line, where available.

Where not apparent, organisations should provide a description of the methodologies used to calculate targets and measures.

[5.455.46](#) The 'Supporting guidance from TCFD' has been adapted to introduce reference to 'service delivery' in lifecycle emissions considerations relevant for public sector bodies, and remove reference to 'revenue goals from for products and services designed for a low carbon economy' which is irrelevant for the vast majority of public sector bodies.

Public sector considerations and further guidance

[5.465.47](#) Organisations should provide fair, balanced, and understandable commentary on climate and sustainability-related performance, detailing organisational activities and other factors that have led to significant movements.

[5.475.48](#) Annual reports should clearly distinguish between 'targets', 'commitments', 'pledges', 'goals', 'aims', and 'ambitions', explaining which of these policies they have actively pursued and included in organisational plans and budgets.

[5.485.49](#) Organisations should clearly highlight which Key Performance Indicators (KPIs) are used to monitor progress against targets and provide sufficient information to assess performance.

[5.495.50](#) Reporting entities should explain which Scope 1, 2 or 3 emissions are included in their targets and ensure that their relationship with GHG reporting metrics is clearly explained.

[5.505.51](#) Reporting entities should provide comparative information for all metrics alongside current reporting to enable performance against the target to be assessed. Any updates to targets, such as restatements or updates to baselines, should be disclosed and explained.

[5.515.52](#) Organisations should identify any areas where performance was not in accordance with the target and any actions taken to address this.

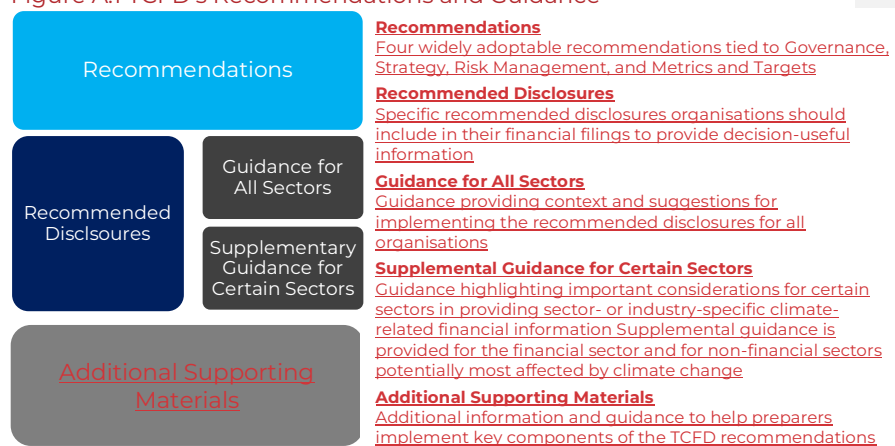
Annex A

Further guidance

TCFD's Recommendation and Guidance

A.1 The TCFD framework structure for recommendations and guidance is depicted in [Figure A.1](#). 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.

Figure A.1 TCFD's Recommendations and Guidance



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

Climate-related risks and risk management

TCFD's guidance on climate-related risks and opportunities

A.2 Climate change can have far-reaching impacts, encompassing not only physical effects on people and the environment but also the consequences of transitioning to a changing climate, along with the necessary tasks of adaptation and mitigation. The Task Force categorise climate-related risks as follows:

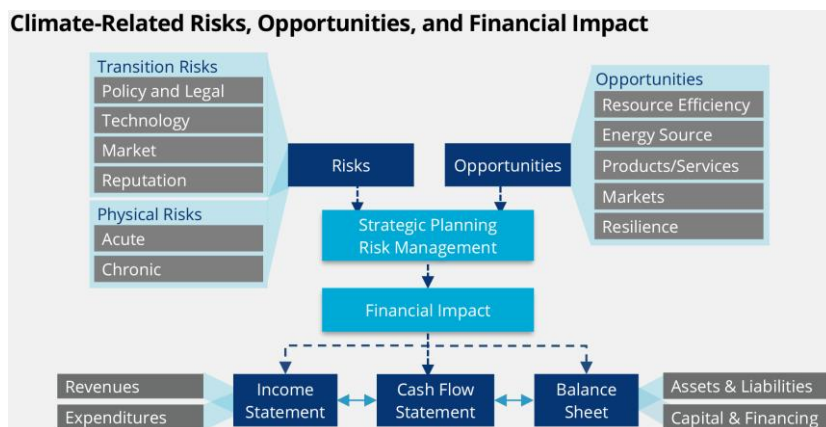
- Physical risks – adverse impacts (e.g., disruption to operations, destruction of property) either event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires) or longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise); or,

- Transition risks - associated with the move to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.

A.3 The TCFD identified certain climate-related risks, opportunities, and financial impacts which may be relevant for disclosure – denoted in [Figure A.2](#). The Task Force also set out examples of climate-related risks and opportunities, as well as the potential financial impacts – included in [Table A1.1](#) and [A1.2](#). Further details are included in [the TCFD guidance](#).

A.4 Not all TCFD’s guidance or examples are relevant to, or can be applied by, public sector bodies. Discretion must be used to determine which are relevant in their own context.

Figure A.2 Climate-related risks, opportunities and financial impact identified by the Task Force



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

Table A1.1 Examples of climate-related risks and potential financial impacts

Type	Climate-related risks	Potential financial impacts
Transition Risks	Policy and Legal	
	- Increased pricing of GHG emissions	- Increased operating costs (e.g., higher compliance costs, increased insurance premiums)
	- Enhanced emissions-reporting obligations	- Write-offs, asset impairment, and early retirement of existing assets due to policy changes
	- Mandates on and regulation of existing products and services	- Increased costs and/or reduced demand for products and services resulting from fines and judgments
	- Exposure to litigation	
	Technology	
	- Substitution of existing products and services with lower emissions options	- Write-offs and early retirement of existing assets
	- Unsuccessful investment in new technologies	- Reduced demand for products and services
	- Costs to transition to lower emissions technology	- Research and development (R&D) expenditures in new and alternative technologies
		- Capital investments in technology development Costs to adopt/deploy new practices and processes
	Market	
	- Changing customer behaviour	- Reduced demand for goods and services due to shift in consumer preferences
- Uncertainty in market signals	- Increased production costs due to changing input prices (e.g., energy, water) and output requirements (e.g., waste treatment) Abrupt and unexpected shifts in energy costs	
- Increased cost of raw materials	- Change in revenue mix and sources, resulting in decreased revenues	
	- Re-pricing of assets (e.g., fossil fuel reserves, land valuations, securities valuations)	

Transition Risks	Reputation	
	<ul style="list-style-type: none"> - Shifts in consumer preferences - Stigmatisation of sector - Increased stakeholder concern or negative stakeholder feedback 	<ul style="list-style-type: none"> - Reduced revenue from decreased demand for goods/services - Reduced revenue from decreased production capacity (e.g., delayed planning approvals, supply chain interruptions) - Reduced revenue from negative impacts on workforce management and planning (e.g., employee attraction and retention) - Reduction in capital availability
Physical Risks	Acute	
	<ul style="list-style-type: none"> - Increased severity of extreme weather events such as cyclones and floods 	<ul style="list-style-type: none"> - Reduced revenue from decreased production capacity (e.g., transport difficulties, supply chain interruptions) - Reduced revenue and higher costs from negative impacts on workforce (e.g., health, safety, absenteeism) - Write-offs and early retirement of existing assets (e.g., damage to property and assets in “high-risk” locations)
	Chronic	
	<ul style="list-style-type: none"> - Changes in precipitation patterns and extreme variability in weather patterns - Rising mean temperatures - Rising sea levels 	<ul style="list-style-type: none"> - Increased operating costs (e.g., inadequate water supply for hydroelectric plants or to cool nuclear and fossil fuel plants)

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

Table A1.2 Examples of climate-related opportunities and potential financial impacts

Type	Climate-related opportunity	Potential financial impacts
Resource Efficiency	- Use of more efficient modes of transport	- Reduced operating costs (e.g., through efficiency gains and cost reductions)
	- Use of more efficient production and distribution processes	- Increased production capacity, resulting in increased revenues
	- Use of recycling	- Increased value of fixed assets (e.g., highly rated energy-efficient buildings)
	- Move to more efficient buildings	- Benefits to workforce management and planning (e.g., improved health and safety, employee satisfaction) resulting in lower costs
	- Reduced water usage and consumption	
Energy Source	- Use of lower-emission sources of energy	- Reduced operational costs (e.g., through use of lowest cost abatement)
	- Use of supportive policy incentives	- Reduced exposure to future fossil fuel price increases
	- Use of new technologies	- Reduced exposure to GHG emissions and therefore less sensitivity to changes in cost of carbon
	- Participation in carbon market	- Returns on investment in low-emission technology
	- Shift toward decentralised energy generation	- Increased capital availability (e.g., as more investors favour lower-emissions producers) - Reputational benefits resulting in increased demand for goods/services

Type	Climate-related opportunity	Potential financial impacts
Products and Services	<ul style="list-style-type: none"> - Development and/or expansion of low emission goods and services - Development of climate adaptation and insurance risk solutions - Development of new products or services through R&D and innovation - Ability to diversify business activities - Shift in consumer preferences 	<ul style="list-style-type: none"> - Increased revenue through demand for lower emissions products and services - Increased revenue through new solutions to adaptation needs (e.g., insurance risk transfer products and services) - Better competitive position to reflect shifting consumer preferences, resulting in increased revenues
Markets	<ul style="list-style-type: none"> - Access to new markets - Use of public-sector incentives - Access to new assets and locations needing insurance coverage 	<ul style="list-style-type: none"> - Increased revenues through access to new and emerging markets (e.g., partnerships with governments, development banks) - Increased diversification of financial assets (e.g., green bonds and infrastructure)
Resilience	<ul style="list-style-type: none"> - Participation in renewable energy programs and adoption of energy- efficiency measures - Resource substitutes/diversification 	<ul style="list-style-type: none"> - Increased market valuation through resilience planning (e.g., infrastructure, land, buildings) - Increased reliability of supply chain and ability to operate under various conditions - Increased revenue through new products and services related to ensuring resiliency

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

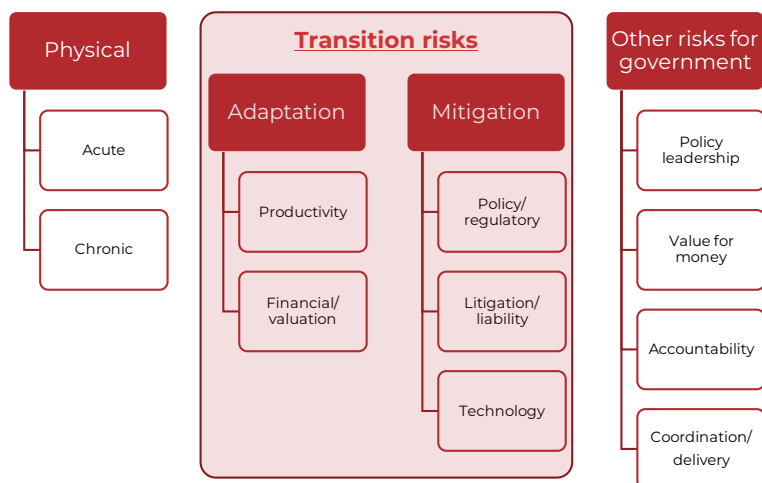
Climate-related risks particularly relevant to the public sector

A.5 Public sector bodies face additional climate-related related risks in connection with value for money, accountability, policy leadership, and coordination and delivery. The NAO published [Climate change risk: A good practice guide for ARACs](#) which offers further reading in this area.

A.6 Example of climate-related risk categories that organisations may wish to consider are included in [Figure A.3](#), with those specific to the public sector summarised as follows:

- **Policy leadership risk** refers to the danger of government failing to effectively address climate change due to the lack of a clear, coherent, and flexible strategy across departments. This risk encompasses uncertainties in technological development, changes in behaviour, and the need for transparent, realistic plans to meet long-term objectives like net zero by 2050.
- **Value for money risk** in the context of transitioning to net zero refers to the financial dangers associated with either delayed action or hasty decisions without adequate risk assessment, potentially leading to increased long-term costs or expensive future corrections. This risk highlights the importance of integrating climate change risks in decision-making to balance cost-effectiveness with swift progress towards net zero goals.
- **Accountability risk** is the ambiguity and potential ineffectiveness in achieving net zero goals driven by unclear roles and responsibilities of public bodies outside central government departments.
- **Coordination and delivery risk** refers to the potential failure in effectively addressing climate change due to inadequate collaboration, communication, and sharing of knowledge among different organisations. This risk arises from unclear roles, fragmented funding, and diffuse accountabilities, particularly between central and local governments and other bodies, leading to social and economic costs and failure to meet targets.

Figure A.3 UK public sector climate-related risks



Other public sector climate risk frameworks

A.7 The government identifies climate change as a risk in the National Risk Register³⁹. The ~~Climate Change Committee (CCC)~~ was established under the Climate Change Act 2008 and produces a periodic UK ~~Climate Change Risk Assessment (UKCCRA)~~. ~~CCRA~~. The ~~UKCCRA~~ ~~UK CCRA~~ identifies priority risk areas for the UK government to address (including on freshwater, soil health, carbon stores, supply chains, etc).

A.8 The Department for Environment, Food & Rural Affairs (Defra) publish the National Adaptation Programme (NAP) to respond to UKCCRA's risks facing the natural environment, infrastructure, people and the built environment, business and industry, local government, and adaptation reporting.

A.9 Each of the devolved administrations have their own legislation with respect to climate change and are required to develop adaptation plans to respond to the risks (and opportunities) posed by climate change - as identified in the most recent UKCCRA.

A.10 ~~Annually~~. The CCC independently assess progress toward reducing emissions. ~~The CCC periodically assess~~ progress on climate change adaptation plans.

A.11 UK public sector bodies that are considering the climate-related risks and opportunities impacting them, or indirectly impacting the economy, environment and people that they have a policy setting responsibility over, may wish to consider the following source: UK CCRA, NAP.

Metrics and targets

Emission scopes

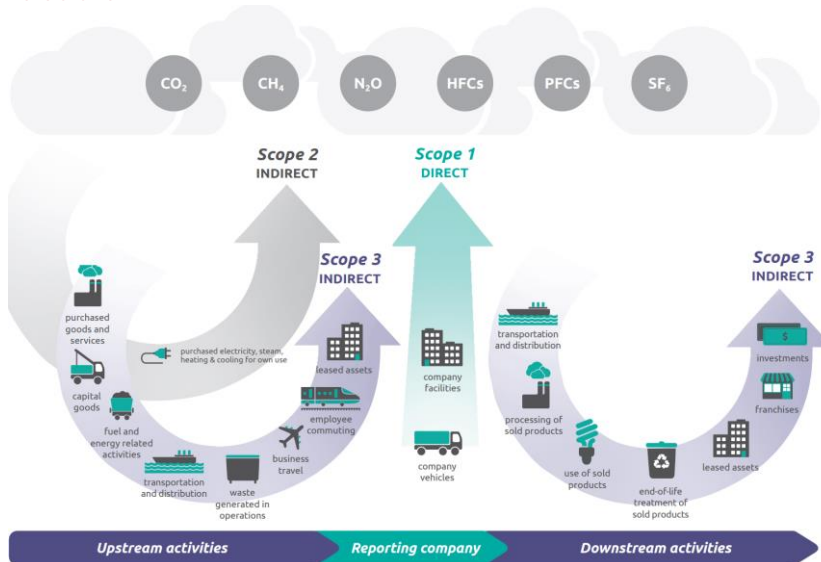
~~A.11~~ A.12 The GHG Protocol set out the emission scope levels as depicted in [Figure A.4](#). This can be summarised as follows:

- Scope 1 refers to all direct GHG emissions.
- Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam.
- Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related

³⁹ <https://www.gov.uk/government/publications/national-risk-register-2023>

activities (e.g., transmission and distribution losses), outsourced activities, and waste disposal.

Figure A.4 Overview of GHG Protocol scopes and emissions across the value chain



Source: <https://ghgprotocol.org/>

TCFD's guidance on metric categories

[A.12A.13](#) The Task Force published Guidance on Metrics and Targets which includes seven metric categories (Table [A2.1](#)). The Task Force believes these are generally applicable to all organisations. The table also includes certain public sector interpretations which are in line with the proceeding chapters.

Table A2.1 Cross-industry, climate-related metric categories

Metric Category	Example Unit of Measure	Rationale for Inclusion	Public sector applicability
GHG Emissions Absolute Scope 1, Scope 2, and Scope 3; emissions intensity	MT of CO ₂ e	Disclosure of GHG emissions is crucial for users to understand an organisation's exposure to climate-related risks and opportunities. Disclosure of both absolute emissions across an organisation's value chain and relevant emissions intensity provides insight into how a given organisation may be affected by policy, regulatory, market, and technology responses to limit climate change.	Reporting on Scope 3 categories beyond those mandated in other existing public sector frameworks is not required.
Transition Risks Amount and extent of assets or organisational activities vulnerable to transition risks*	Amount or percentage	Disclosure of the amount and extent of an organisation's assets or business activities vulnerable to climate-related transition risks allows users to better understand potential financial exposure regarding such issues as possible impairment or stranding of assets, effects on the value of assets and liabilities, and changes in demand for products or services.	The responsibilities and structures for asset ownership, control and management may differ from the private sector, extending beyond the direct remit of financial reporting. Further guidance on asset management is included in MPM. Reporting entities are encouraged to consider assets belonging to others which they protect or influence. Where such components do not form part of the entity's balance sheet, this should be clearly stated.
Physical Risks Amount and extent of assets or organisational activities vulnerable to physical risks	Amount or percentage	Disclosure of the amount or extent of an organisation's assets or business activities vulnerable to material climate-related physical risks allows users to better understand potential financial exposure regarding such issues as impairment or stranding of assets, effects on the value of assets and liabilities, and cost of business interruptions.	

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

Metric Category	Example Unit of Measure	Rationale for Inclusion	Public sector applicability
Climate-Related Opportunities Proportion of revenue, assets, or other business activities aligned with climate-related opportunities	Amount or percentage	Disclosure of the proportion of revenue, assets, or business activities aligned with climate-related opportunities provides insight into the position of organisations relative to their peers and allows users to understand likely transition pathways and potential changes in revenue and profitability over time.	Most public sector bodies are unlikely to generate significant revenue.
Capital Deployment Amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities	Reporting currency	Capital investment disclosure by non-financial organisations and financing by financial organisations gives an indication of the extent to which long-term enterprise value might be affected.	

Note: While some organisations already disclose metrics consistent with these categories, the Task Force recognises others—especially those in the early stages of disclosing climate-related financial information—may need time to adjust internal processes before disclosing such information. In addition, some of the metric categories may be less applicable to certain organisations. For example, data and methodologies for certain metrics for asset owners (e.g., impact of climate change on investment income) are in early stages of development. In such cases, the Task Force recognises organisations will need time before such metrics are disclosed to their stakeholders.

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

Metric Category	Example Unit of Measure	Rationale for Inclusion	Public sector applicability
Internal Carbon Prices Price on each ton of GHG emissions used internally by an organisation	Price in reporting currency, per MT of CO ₂ e	Internal carbon prices provide users with an understanding of the reasonableness of an organisation's risk and opportunity assessment and strategy resilience. The disclosure of internal carbon prices can help users identify which organisations have <i>operational</i> models that are vulnerable to future policy responses to climate change and which are adapting their <i>operational</i> models to ensure resilience to transition risks.	Public sector bodies that use internal carbon prices (or carbon values) to assess and evaluate policy and programmes should disclose the values and how they are used. Refer to para. 5.31 and 5.32 for further guidance.
Remuneration Proportion of executive management remuneration linked to climate considerations**	Percentage, weighting, description, or amount in reporting currency	Remuneration policies are important incentives for achieving an organisation's goals and objectives and may provide insight on an organisation's governance, oversight, and accountability for managing climate-related issues.	Sustainable performance-based pay may be less relevant for public sector bodies. Refer to para. 5.29 and 5.30 for further guidance.

*Transition and Physical Risks: Due to challenges related to portfolio aggregation and sourcing data from companies or third-party fund managers, financial organisations may find it more difficult to quantify exposure to climate-related risks. The Task Force suggests that financial organisations provide qualitative and quantitative information, when available.

** Remuneration: While the Task Force encourages quantitative disclosure, organisations may include descriptive language on remuneration policies and practices, such as how climate change issues are included in balanced scorecards for executive remuneration.

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

Public sector interpretations and adaptations

[A.13A.14](#) 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 and adapted for a public sector context – as identified and explained in Table A.3 (below).

[A.14A.15](#) These interpretations and adaptations are limited specifically to this guidance (and the UK public sector) and should not be applied more widely.

Table A.3 Public sector interpretations and adaptations

Private sector	Public sector	Explanation
Business or company	Organisation	Encompasses a wider array of bodies, including those in the public sector.
Business plan Organisation's Business/	Organisation's Operations/ Operational 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 Delivery Plan (ODP).
An organisation's business or business model	An organisation's operations or operational model	Transforming inputs through its activities into outputs and outcomes that aims to fulfil the entity's objectives, by providing goods and/or services.
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.

<u>Investors</u>	<u>Primary users</u>	<p><u>In the private sector, primary users of annual reports are generally accepted to be investors.</u></p> <p><u>For UK government and public sector annual reports, primary users vary depending on the relevant authority. For example, primary users of central government ARAs are Parliament</u></p>
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Private sector	Public sector	Explanation
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 goods 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 monetisable 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).

<u>Revenues, costs</u>	<u>Income, expenditure</u>	<u>While equivalent, the terminology of income and expenditure is more common in the public sector</u>
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<u>investment in research and development</u>	<u>investment and grants in research and development</u>	<u>The public sector often funds R&D through grants – rather than direct investment.</u>
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Table A.4 Global Warming Level Pathways identified by CCC in CCRA4 methodology

Time period	Central scenario			High climate hazard sensitivity		
	2030s	2050s	2080s-2100	2030s	2050s	2080s-2100
Global warming level (above preindustrial levels)	1.5°C	2°C	2°C	2°C	2.5°C	4°C
UK climate hazards	Median of UKCP18 at 1.5°C	Median of UKCP18 at 2°C	<i>If current NDC and net zero targets are delivered central estimates keep levels of between 1.5–2°C</i>	Upper-end UKCP18 at 2°C	Upper-end UKCP18 at 2.5°C	<i>certain current policy scenarios reaching/exceeding 4°C by 2100</i>

Source: <https://www.theccc.org.uk/publication/proposed-methodology-for-the-ccra4-advice>

NDC – nationally determined contributions

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 B.1 (next page).

B.3 While in-scope central government bodies should follow the implementation timetable set out in Table B.1, 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. 1.39).

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 need to 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 disclose.

Applying appropriate judgement to the level and breadth of disclosure is key to producing effective and useful public sector annual reports.

Table B.1 Overview of TCFD-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 with existing quantitative disclosures	Quantitative disclosures with technical requirements. TCFD-aligned disclosure is fully implemented.
Requirements	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: <ul style="list-style-type: none"> • Governance • Metrics and Targets (b), only where available from existing reporting processes. <p>Comply or explain basis</p>	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: <ul style="list-style-type: none"> • Governance • Risk Management • Metrics and Targets <p>Comply or explain basis</p>	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: <ul style="list-style-type: none"> • Governance • Risk Management • Metrics and Targets, considering wider reporting. • Strategy <p>Comply or explain basis</p>
Interaction with GGC framework	Continue to apply GGC21-25 emissions methodology for Metrics and Targets, in line with SRG	Continue to apply GGC21-25 emissions methodology for Metrics and Targets in line with SRG	Apply new GGC25-30 emissions methodology for Metrics and Targets (GGC21-25 runs until 31 March 2025 with next commitment period for GGC25-30 starting on 1 April 2025). Consider further additional support on emissions methodology (e.g. on scope 3).

Annex C

List of abbreviations

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

Table C.1 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

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This document can be downloaded from www.gov.uk

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