HM Treasury

FRAB-Sustainability Subcommittee (FRAB-SSC)

Financial Reporting Advisory Board

TCFD-aligned disclosure and Sustainability Reporting Update (FRAB-SSC 10)

Issue:	The paper sets out the FRAB Sustainability Subcommittee's (FRAB-SSC's) recommendations from the November 2024 meeting and asks for the Board's approval to publish the Task Force on Climate-related Financial Disclosure (TCFD) -aligned disclosure Application Guidance (the AG) for Phase 3[1].
Impact on guidance:	The AG will be published on GOV.UK and will impact the FReM. Relevant signposting is included in FReM 2025-26.
IAS/IFRS adaptation?	No IAS/IFRS adaptations are proposed in this paper.
Impact on WGA?	There is no immediate impact on WGA in the paper. Advice on climate- and sustainability-related reporting may impact WGA's performance reporting in the future.
IPSAS compliant?	The TCFD recommendations and guidance align with the International Sustainability Standards Board's *IFRS-S2 Climate-related Disclosures*. IFRS-S2 forms the foundation of IPSASB's Climate Standard Exposure Draft.
Interpretation for the public sector context?	No IAS/IFRS interpretations/adaptations are proposed in this paper. The AG interprets and adapts the TCFD framework in a UK public sector context.
Impact on budgetary and Estimates regimes?	N/A
Alignment with National Accounts	N/A
Recommendation:	The Board are invited to comment on the paper, and are asked to approve the AG.
Timing:	Approval at this meeting – for publication on GOV.UK in winter 2024.

1. Sustainability reporting is increasingly important to foster transparency, accountability, and resilience across the UK public sectors – ensuring preparedness for current and future climate change, and the delivery of government's statutory net zero goal.
2. The sector is advancing this goal by aligning with the Task Force on Climate-related Financial Disclosures (TCFD), reinforcing its commitment to climate risk management and informed

[1] With the agreement of FRAB, HM Treasury set out a three-year phased implementation for TCFD-aligned disclosure in central government – refer to Appendix 1 of FRAB 149 (13).

decision-making. This guidance marks the final stage in a three-phase programme to embed TCFD-aligned reporting.

3. We have built progressively on existing frameworks to create a unified yet flexible approach that meets the specific needs of central government, other relevant authorities, and the wider public sector. Collaboration with policy experts, report preparers, and departments has been central to this process, and we welcome further feedback to continue strengthening sustainability reporting practices in the public sector.

Background

4. This paper follows the last FRAB meeting and accompanying paper, FRAB 153 (03) in June 2024, where the Board approved the TCFD-aligned disclosure Exposure Draft for Phase 3 (the ED). The ED consultation launched on 25 July 2024 and closed on 26 September.

5. At FRAB-SSC 10 on 4 November 2024, the Subcommittee discussed the ED consultation feedback - refer to Annex 2. ED respondents generally supported the draft application guidance. In regards to the specific Phase 3 guidance, respondents supported broader impact considerations in scenario analysis, but many expressed that providing useful data would be challenging, with one opposing this approach. There was also opposition to changing the adaptation strategy disclosure from "2°C and below" to "2°C and 4°C," and a call for clearer guidance on disclosures around transition risks, particularly for regions with more ambitious net-zero targets of 2045.

6. Based on feedback and discussion at FRAB-SSC 10, the updates to the AG were as follows:

Overall

- We have streamlined the AG, with more focused and concise guidance text, moving supplementary information to annexes (specifically on 'Risk Management' and 'Supporting Guidance from TCFD').

Chapter 1: Introduction

- The Scope and Materiality sections and related disclosure requirements have been simplified by categorising them as follows:
    - mandatory requirements for all in-scope reporting entities - Governance recommended disclosures, Risk Management recommended disclosure and Metrics and Targets recommended disclosure b)
    - mandatory requirements for reporting entities with principal climate risk - Strategy recommended disclosures, Metrics and Targets recommended disclosures a) and b)
    - subject to a materiality assessment for all other in-scope reporting entities - Strategy recommended disclosures, Metrics and Targets recommended disclosures a) and b)

The related guidance in Chapter 1 and 3 has been updated accordingly.

Chapter 3: Strategy

Strategy recommended disclosure a) and b)

- Time horizons - Clarifying guidance to address specific real-life examples (including on earlier net zero commitments, and organisations with limited funded/operating lives) and flexibility on the use of 'very-long-term' time horizons.
- Impacts – Clarifying guidance on opportunities, broader considerations and boundaries.

Strategy recommended disclosure c)

- Reversed proposed adaption which considered scenarios of '2°C and 4°C' to at least one scenario of '2°C and below'. The reversal addresses consultation concerns around government messaging on Net Zero commitments. However, the approach to using Global Warming Levels (GWLs) based on the Climate Change Risk Assessment (CCRA) 4th methodology remains unchanged. Guidance on transition risks is addressed later.
- Re-ordering guidance to initially focus on the government's (and a reporting entity's) transition risks for delivering net zero (by mid-century). Supplementary guidance was added on the characteristics for end-of-century scenario analysis to more clearly link with significant physical (and adaption) risks.
- Further guidance was added on ranges for reference periods (up to 20 years); on climate models and data sets (e.g., Met Office climate projects, IPCC models, ONS data sets); and incorporating transition risks and when to use transition pathways (e.g., scenario providers).
- Frequency – modified from '3 to 5 years' (in the ED) to 'at least every five years' with further guidance to support preparers in deciding the frequency (e.g., stress testing financial exposure, changes to underlying assumptions on technology/geopolitics, value-for-money considerations).

Annexes

- An illustrative example was added to Annex 1 (of Appendix 1a/1b) detailing the high-level considerations and requirements for a policy setting/regulatory in a group.

Recommendations

7. The Subcommittee agreed that the AG, once updated for their feedback, should be presented to FRAB at the November meeting for review, comment, and approval. The Subcommittee's feedback has been incorporated into the AG — refer to Appendix 1 and 1b.
8. Following ministerial review and continued stakeholder engagement, there may be further changes prior to publication. If these are significant, HMT will communicate these to the Board. If the Board approves the AG, HMT plans to publish in winter 2024, ideally alongside the 2025/26 FReM (pending ministerial clearance).

FRAB-SSC recommends that the Board approve the updated TCFD-aligned disclosure Application Guidance for Phase 3 with planned publication in winter 2024 (pending ministerial approval). Do you agree? Yes / No

Is FRAB in agreement with HM Treasury's proposed actions, supported by the Subcommittee, to:

- ***Present a sustainability thematic review to the Board*** *– refer to paragraph. 14 and 16.*
- ***Assess an appropriate approach, including governance structures and statutory remit, to consider sustainability standards for the UK public sector (return to the Board once considered)?*** *– refer to para. 17 to 20.*

SSC meeting summary

9. This section summarises the discussion at FRAB-SSC 10. For further detail – including a more detailed update on sustainability reporting developments – please refer to the minutes, the paper, and supporting annexes included in Annex 1a, 1b and 2.

Implementation progress

10. HMT reviewed a sample of 2023-24 Annual Reports and Accounts (ARAs) laid before the summer Parliamentary recess, focusing on compliance with first-year TCFD-aligned disclosures and sustainability reporting requirements.

11. Overall compliance with the Governance pillar was strong, with high-quality reports offering climate context, plans for future disclosures, and clear information on the board and management structures. However, a few preparers misunderstood the requirements, simply replicating the TCFD Compliance Statement without detailed disclosures. Some ARAs included immaterial opportunities or excessive explanations of new requirements. To support improvement, HMT issued a Good Practice Guide (refer to Appendix 2), which is on One Finance and will be updated for GOV.UK in early 2025 following further ARA reviews.

12. On 29 October, ICAEW hosted a training session on TCFD Strategy requirements, in collaboration with HMT and GAD, featuring insights from technical experts and TfL, who have begun TCFD Strategy disclosures. HMT is working with GAD and other experts to develop additional training and support for preparers ahead of the mandatory 2025-26 disclosures.

13. A department-led working group to support implementation has also been set up which HMT is observing. This group should allow departments the opportunity to escalate issues to HMT when it is felt that more central guidance may be needed (similar to the Technical Accounting Centre of Excellence, and the Resource Accounts Special Interest Group). At the request of the Subcommittee, HMT will consider whether there is anything more we can do to support TCFD implementation from a standard-setter perspective (e.g., a central guidance page).

Sustainability thematic review

14. Central government sustainability reporting requirements beyond the TCFD guidance are outlined in the Sustainability Reporting Guidance (SRG), which aligns with Defra's Greening Government Commitments (GGCs) for five-year environmental and climate targets. With the conclusion of TCFD guidance development, and ahead of the next GGC period starting in April 2025, HMT is proposing a thematic review of current sustainability reporting practices and requirements. This review will address findings from the 2023-24 ARA assessment, consider current GGC/SRG requirements, and developments in sustainability reporting by standard setters and the private sector - including upcoming UK Sustainability Reporting Standards (UK SRSs) and IPSASB's Climate Exposure Draft.

15. The review will also consider the governance structure around setting sustainability reporting requirements, recognising that FRAB's terms of reference allow the Board to review climate and sustainability frameworks, but that additional expertise and representation may be required around the governance of any new UK public sector sustainability reporting standards. However, the review will not make any final decisions in this area, as we will need more certainty on the future direction for sustainability reporting generally before fundamentally reconsidering the governance around setting these requirements.

16. HMT plans to present sustainability thematic review findings and recommendations and an update on reporting developments at FRAB 155 in March 2024.

Future work, sustainability standards and governance

17. At FRAB-SSC 10, Subcommittee members discussed ongoing developments from standard setters – refer to Annex 1. The Subcommittee asked HMT to consider the alignment of the AG with IPSAS's recently published Climate Exposure Draft (consultation closes 28 February 2025).

18. HMT plan to informally engage the Subcommittee when developing a response to the IPSASB Sustainability Reporting Standards ED (SRS ED) and will submit this response if ministers

agree. Assuming that HMT respond to the SRS ED, we will also bring our formal response to FRAB in March, highlighting significant differences between the two.

19. An overview of the IPSAS ED is as follows:
    - Framework alignment: Builds on TCFD and IFRS S2 while addressing public sector specifics.
    - Scope:
        - Own operations - disclosures on climate risks and opportunities affecting an entity's operations.
        - Public policy programs - disclosures for programs aimed at climate impact through regulatory or financial policies.
    - Structure: Organised by governance, strategy, risk management, and metrics/targets.

20. In addition, the IPSAS SRS ED has narrowed its scope to focus on outcomes rather than impacts. While earlier ED developments indicated that reporting on climate-related impacts on the economy, environment and people would be required, the final ED has instead set a narrower scope of outcomes, which as defined in IPSASB's Recommended Practice Guideline (RPG3) 'occur as a direct result of, or reasonably attributable to, an entity's outputs'. The TCFD AG has included broader impacts on the economy, society and environment. This drew from UK public sector literature, existing UK performance/narrative reporting requirements, and aligns with the informational needs of primary users (refer to para. 1.37 in the TCFD AG Appendix 1). Specifically, this is first introduced into the Broader Considerations/Sphere of Influence section of the AG (Chapter 1), before being linked to an organisation's strategy and the impact of climate on that strategy (Chapter 3).

Next Steps

Over the next 6–12 months

21. Publication and stakeholder engagement: Pending FRAB approval and ministerial clearance, the TCFD-aligned Application Guidance (AG) for Phase 3 is scheduled for publication in winter 2024. Stakeholder engagement will continue, focusing on refining the guidance and addressing any challenges in its application.

22. Thematic review: HMT will conduct a review of current sustainability reporting practices, considering recent findings, GGC/SRG requirements, and developments in public and private sector reporting. The findings will be presented to FRAB in March 2025.

23. Training and support: HMT will work with GAD and others to offer further training for preparers moving toward mandatory disclosures in 2025–26. The department-led working group will continue providing feedback and identifying areas needing additional guidance.

Next inflection point:

24. FRAB 155 March 2025: This meeting will serve as a key review point, where HMT will present the thematic review outcomes and sustainability reporting updates.

25. Later in 2025/26: the Subcommittee may be reconvened to consider new developments, including the final IPSAS Climate Standard, DBT's UK Sustainability Reporting Standards, and provide views on advancing public sector sustainability reporting (noting the call from FRAB-SSC for HMT to consider governance arrangements).

The subsequent pages and annexes cover previous Subcommittee meetings. They are included here as Annexes for reference and completeness only. Where sections of the subcommittee papers have been incorporated into the covering paper - they have not been duplicated in these annexes. Subsequent clarifications/updates to this paper, after the Subcommittee meeting have been included in italics.

Annex 1 for FRAB-SSC 10 on 4 November 2024

Annex 1a – Agenda and minutes for FRAB-SSC 10

Time: 1.30pm to 3.30pm on Monday 4 November 2024 (virtual via MS Teams)

Attendees

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

Agenda

- Consider the feedback from the 'TCFD-aligned disclosure Exposure Draft for Phase 3' consultation.
- Review, discuss, and hopefully approve the updated draft of the 'TCFD-aligned disclosure Application Guidance for Phase 3'.
- Present our analysis of the 2023-24 annual reports and accounts laid so far, alongside our Good Practice Guide.
- Discuss recent sustainability reporting developments and the next steps for the Subcommittee.

Actions

	Item	Details	Progress
	FRAB-SSC 04 on 1 March 2023		
1	Sustainability Reporting Expert	HMT to identify potential candidates with sustainability reporting expertise and consider updates to update the FRAB-SSC Terms of Reference.	Open – ~~ongoing work to identify potential candidates, although external advice has been sought from GAD who have presented at FRAB-SSC and will present at FRAB.~~ HMT to reconsider the Governance arrangements for sustainability-related reporting and role of FRAB.
	FRAB-SSC 07 on 7 March 2024		
2	Support for implementation	HMT to continue considering support and training on TCFD-aligned disclosure implementation,	Open – continue to monitor and develop throughout TCFD implementation.

		including supporting relevant working groups and developing further directional guidance where appropriate.	
	FRAB-SSC 10 on 4 November 2024		
3	HMT to update AG for FRAB-SSC comments	HMT to update AG as follows: - Materiality section (introduce mandatory requirements, split out Figure 1.3) - Define transition risks and more clearly explain climate scenario analysis for 2045 net zero goals.	Closed – AG updated for FRAB-SSC comments
4	HMT to evaluate alignment of AG with standards	HMT to evaluate alignment of AG with IPSAS (and once published DBT endorsed IFRS-Ss)	Open

Publication procedures and details

A1. The summary minutes for the FRAB-SSC meeting have been circulated to the Subcommittee for comment in advance of the FRAB meeting.

A2. These minutes should be read in conjunction with the supporting paper for FRAB-SSC 10 – refer to Annex 1b. The summary minutes have been grouped by discussion category – rather than the chronological order of discussion – to improve their readability.

Summary minutes

A3. Sarah Geisman as rotating Chair commenced the meeting, welcoming members and GAD colleagues - noting apologies from Lynn Payment and Michael Sunderland.

TCFD-aligned disclosure exposure draft consultation (for Phase 3)

Consultation responses

A4. HMT provided an overview of the consultation feedback, noting that 14 formal responses were received, supplemented by feedback at training sessions and working group discussions. While there was general support for the guidance direction, key concerns included:

- Transition risks – misunderstanding on how these were to be integrated into climate scenario analysis, including global warming level (GWLs) and government’s net zero commitments. Requests for incorporation and clearer guidance on analysing transition risks.
- Strategy recommended disclosure c) adaptation - analysing a 2°C and 4°C GWLs misaligns with national climate goals. Respondents were concerned about government messaging for using these climate scenarios, relative to the Paris Agreement.

A5. HMT explained that the AG had been streamlined (i.e., simplified introduction, with detailed elements moved to annexes). In addition, illustrative examples and additional materiality guidance had been added in response to consultation feedback. Other changes were made to address specific points of feedback (e.g., on earlier net zero target years, organisations with limited operational/funding lifetimes).

Streamlining Chapter 1 and supporting guidance from TCFD, and materiality guidance

A6. The Chair asked members to discuss the Chapter 1 updates, as well as relocating the 'supporting guidance from TCFD' sections to annexes. The Chair also encouraged members to suggest ways to make the guidance more concise and readable.

A7. One member agreed with the streamlining, however, asked whether this approach was consistent with other published application guidance, and internally consistent. The member also noted that certain materiality terms were unclear and the inconsistency between materiality in financial statements and broader climate disclosures. They suggested avoiding the term 'materiality' for mandatory disclosures to improve understandability.

A8. Another member expressed support for streamlining and relocating content to annexes. They also agreed that the approach to annexed information needs to be consistent and necessary for clarity around materiality concepts. They referenced the Government Finance Function course on Materiality in the Financial Statements.

A9. Another member also expressed concerns about the overlap between scoping, materiality, and principal risk assessments. They noted that the new 'climate as a material topic' added complexity. They supported clearer separation and differentiation of concepts, potentially through revised decision trees.

A10. Another member noted the utility of the decision tree in Figure 1.3, however, suggested breaking down the decision tree into three parts to simplify the understanding of scoping, risk assessment, and materiality.

A11. There was consensus on simplifying the language with mandatory disclosures explicitly stated as required without referencing materiality and clearer delineation between scoping and risk assessments.

A12. HMT acknowledged the complexity and committed to refining the language to better differentiate between thresholds, principal risk considerations, and material disclosures. They agreed to incorporate feedback to simplify the guidance, improve the decision tree structure, and clarify materiality language.

A13. The Chair confirmed with the Subcommittee members that there was no additional feedback on Chapter 1, and they supported the restructuring. The Chair encouraged FRAB-SSC members to provide additional suggestions offline.

Risk guidance

A14. The Chair moved the discussion on to Question 3 and 4. HMT updated FRAB-SSC on the principal risks guidance which had been revised to differentiate between requirements for general risk management which is risk agnostic (now in Annex A); and the specific climate risk guidance and requirements which remain in the main body. Climate risk is systemic in nature and has unique reporting needs.

Time horizons and transition risks for earlier net zero targets

A15. HMT provided an overview of the updates to Strategy recommended disclosures a) and b) with adjustments made to clarify time horizons, and address specific feedback from members (e.g., asset design life cycle contrasting with short-term funding cycles). Guidance now clarifies reference periods, especially concerning end-of-century scenarios.

A16. The Chair opened the floor for feedback on these updates. One member raised a point of clarification with reference to a 2045 net zero commitment and how this is to be included within the guidance range. HMT confirmed that guidance has been broadened to cover these transition risks more comprehensively in mid-century, to encompass regional/jurisdictional commitments of 2045 net zero targets. The member suggested explicitly stating this in the annex for clarity. HMT agreed to consider adding a note to avoid ambiguity.

Removal of Strategy recommended disclosure c) adaptation and climate scenarios to consider

A17. The Chair moved the discussion on to Question 5, concerning the proposed removal of the specific 2ºC and 4ºC warming scenarios. HMT explained that consultation feedback highlighted concerns that specifying 2ºC and 4ºC degree pathways could imply reduced government commitment to Paris Agreement goals. HMT confirmed that this was not the intention, noting that the previous adaptation aligns with the TCFD requirement to consider at least one scenario of '2ºC or lower'. Transition risks within scenarios should primarily be driven by government's Net Zero policy which is designed to meet the national statutory target. The change aims to simplify communication without altering the overall guidance or removing essential scenarios.

A18. A member sought to understand whether this change was substantive or presentational. HMT confirmed it was presentational only, not substantive. The member expressed comfort with the adjustment, understanding it as a presentational refinement.

A19. The Chair introduced Question 6, regarding updates on reference periods and pathways. HMT explained revisions were made to address confusion over transition risks, emphasising their presence in alignment with the government's evolving net-zero strategy. Default scenarios aligned with GWLs remain, however, the guidance highlights the flexibility provided to organisations with specific needs or access to specific data (e.g., financial institutions).

A20. The Chair invited feedback. Members endorsed the added flexibility, noting potential shifts like government restructuring that could impact risk analysis.

Scenario analysis frequency and illustrative example

A21. The Chair introduced Question 7, which relates to the frequency of climate scenario analysis. HMT noted a diverse range of views within consultation responses, however, there was support for the frequency selected. The revised guidance specifies detailed analysis 'at least every five years', with interim updates as necessary for transition risks. This approach balances data availability constraints with the need to capture evolving risks.

A22. A member noted appreciation for the flexibility in this area, citing the relevance with other reporting policy developments (e.g., Machinery of Government).

A23. The Chair moved on to the illustrative example added in Annex A and asked for comments. Members confirmed they were content.

Alignment with developing sustainability standards

A24. A member raised a broader point about the need to consider alignment with international standards as they develop (e.g., IPSASB Sustainability Reporting Standard Exposure Draft (SRS ED) on Climate). HMT discussed ongoing collaboration with IPSASB and efforts to ensure consistency where appropriate. HMT plan to informally engage the subcommittee when developing a response to the SRS ED and will submit this response if ministers agree. Assuming that HMT respond to the SRS ED, we will also bring our formal response to FRAB in March, highlighting significant differences between the two.

A25. The member raised the importance of clarity in scoping and noted the balance between comprehensive and manageable guidance.

A26. HMT confirmed that they attended the IPSAS SRS ED launch event on Friday 1 November, and noted IPSASB's relatively narrow focus on climate-related policies and acknowledged ongoing discussions on the optimal scope. HMT is considering consistency between the UK government's approach to sustainability reporting and international standards.

2023-24 ARA evaluation, Good Practice Guide and other support

A27. HMT has reviewed pre-summer recess ARAs and plans to review the remaining 23-24 ARAs over the coming months. This will not be a formal evaluation process but will help refine best practices and enhance future reporting. HMT intends to manage this through practical guidance and by highlighting examples of effective disclosures.

A28. HMT summarised that while compliance for TCFD and sustainability reporting requirement had been high, there were examples of low or non-compliance. An area of focus needed to be connectivity between climate and sustainability and other ARA sections. The reviews involved both a high-level review of departments and larger ALBs ARAs laid pre-recess, and engaging with technical experts and preparers to identify examples of good practice, as well as specific practices to avoid. A good practice guide is being prepared based on these reviews and will be finalised after evaluating the ARAs laid after the summer recess.

A29. One member highlighted the value of identifying "star" reports as examples for other preparers, suggesting that showcasing public sector examples would be helpful.

Other updates and approval for onward submission to FRAB

A30. A member explained that she would provide further input on the structure and presentation of the application guidance by email. They suggested that the definition of climate transition risk is expressly included in the main body of the guidance rather than solely in the annexe. They also felt information in certain footnotes should be integrated into the annexe for clarity. They also asked the GWLs be clearly set out as the default position earlier in the document to avoid this being missed.

A31. The Chair invited feedback from the Subcommittee on the proposed clarifications, with members confirming their consent, that once the guidance had been updated for their feedback, then it could be presented to FRAB.

Governance over sustainability reporting requirements and FRAB

A32. A member asked about FRAB's authority over sustainability guidance, noting that this topic does not fit neatly within FRAB's legislative remit. They questioned whether FRAB's current membership was appropriate for sustainability reporting oversight, noting that the group's expertise may need to evolve to reflect the complexities of sustainability disclosures.

A33. HMT acknowledged the governance questions and confirmed that future work on sustainability reporting, including the thematic review discussed below, would consider potential changes to FRAB's structure. HMT noted that aligning with international sustainability standards may require reconsidering governance arrangements to include a wider stakeholder base.

Sustainability thematic review and other sustainability reporting developments

A34. HMT outlined plans for a sustainability thematic review, focusing on central government's sustainability reporting. The findings will be presented at the March FRAB meeting. Defra is renewing and expanding the GGCs for 2025-2030, and HMT is considering the most appropriate way of updating the guidance in line with developing practices in the private sector, standard setters and needs of preparers/users.

A35. HMT provided key dates for upcoming developments, including the Q1 2025 endorsement of IFRS-Ss by DBT and the ongoing work by DESNZ on a public sector emissions framework.

Future subcommittee meetings

A36. The application guidance will be submitted for FRAB’s approval in November, with no further subcommittee meetings planned unless required.

Implementation support

A37. A member emphasised the need for real-time support mechanisms for preparers, potentially through a working group that addresses emerging issues and shares insights publicly when appropriate.

A38. HMT set out the existing support networks, including the Sustainable Finance Network and the TCFD Implementation Working Group (recently launched by MOJ). Although these groups support preparers, it will be important to make sure there are formal lines of communication between these groups and HMT, so HMT can consider if any additional guidance is needed from a standard-setting perspective.

A39. A member raised the issue of support needed during the implementation phase after guidance has been finalised. The focus was on establishing effective mechanisms to assist preparers and gather feedback during implementation, particularly regarding key judgments and decisions. There is a need for a real-time feedback loop rather than a post-event review, given the complex and judgmental nature of the disclosures. The member acknowledged that this support does not neatly fit within the existing remit of the FRAB.

A40. HMT acknowledged the concerns about a lack of a designated structure for implementation support and the limitations inherent in HM Treasury's role as a standard setter. Typically, after guidance is issued, implementation responsibilities rest with individual departments, often with support from the National Audit Office (NAO) for specific judgment areas. However, due to the novel nature of the current disclosures, more structured support is warranted. Training sessions, including one held with ICAEW last Tuesday, have been well-received, and more support for preparers will be offered.

A41. HMT provided more detail on ongoing initiatives, such as Defra’s and GAD’s development of additional training resources. She mentioned recent efforts like ICAEW training sessions and emphasised the importance of establishing formal communication channels for feedback and clarification.

A42. HMT highlighted considerations being made for a cross-cutting bid in the context of the Spending Review, aiming to secure funds to support implementation in collaboration with GAD and Defra. However, they cautioned that a similar bid had been unsuccessful in a previous review, so expectations should be managed. HMT invited further input from GAD and other stakeholders.

A43. HMT provided updates on DEFRA and GAD’s work to develop a scenario analysis training module, expected early next year. He acknowledged that additional training would be needed and that discussions were ongoing to address these needs.

A44. HMT mentioned the potential establishment of a centralised digital repository on One Finance to house guidance and implementation resources. Efforts are being made to ensure stakeholders are aware of and use this platform effectively. HMT also referred to semi-regular updates through existing networks to discuss challenges, though these are informal. Publishing additional formal guidance may be necessary as implementation progresses and issues emerge.

A45. The GAD representative reinforced the discussion on cross-departmental support, noting that they are exploring funding options in the Spending Review 2025. GAD stressed that while a strong business case exists, securing funding and coordinating the various departments, are significant challenges. GAD is committed to working on these issues, recognising the need for consistent technical support and guidance across departments.

AOB, acknowledgement and close

A46. The Chair asked members whether they had any other business.

A47. HMT expressed gratitude to GAD colleagues for their invaluable support in developing the application guidance. The Chair thanked the Subcommittee members for their strategic input and acknowledged the complex, often conflicting feedback that had to be navigated – noting the Subcommittee would enter an indefinite hiatus, with future reconvening yet to be determined. HMT was thanked for the guidance development. Meeting closed.

Annex 1b – Meeting paper

Summary and updates

Background

B1. This paper is for the FRAB Sustainability Subcommittee (FRAB–SSC) meeting on 4 November 2024. This follows on from the last FRAB meeting and accompanying paper, FRAB 153 (03), in June 2024 where the Board approved the Task Force on Climate-related Financial Disclosure (TCFD) -aligned disclosure Exposure Draft for Phase 3 ('the ED'). The ED set out the recommended disclosures for the Strategy pillar, on time horizons, impacts, and climate scenario analysis.

B2. This paper summarises the responses to the ED, and the proposed changes to the TCFD-aligned Disclosure Application Guidance for Phase 1, 2 and 3 (refer to Appendix 1). The paper also sets out HMT's plan for a sustainability thematic review and updates members on developments to the sustainability reporting landscape,

TCFD-aligned disclosure Application Guidance - Phase 3

Consultation feedback

B3. Fourteen responses were received on the ED consultation — refer to Annex 2. Further informal feedback was received through separate sessions with preparers and policy teams. The main themes/views were as follows:

- Support for broader considerations of impacts to be considered in scenario analysis, however, multiple respondents thought providing useful data would be challenging. One respondent was strongly opposed for this reason.
- Multiple respondents opposed the adaptation to Strategy recommended disclosure c) from '2°C and below' to '2°C and above', with most feeling this portrayed the wrong message for government.
- Multiple respondents reflected that there should be a stronger focus on transition risks. Some respondents incorrectly understood from the AG that these were not required under the scenario analysis using Global Warming Level (GWLs).
- Representatives from Scotland and DHSC/NHS bodies (where more ambitious net zero goals of 2045 have been set) noted that guidance was not clear on transition risks.
- Further guidance was requested on climate scenarios with requests for an illustrative example.

Updates to Application Guidance

B4. We have updated the AG accordingly explaining the updates and posing questions to FRAB-SSC in this section. Alongside these more significant changes, we have streamlined the guidance and added minor clarifications/supplementary guidance – refer to Appendix 1a (draft) and 1b (tracked changes).

Q1. Does FRAB-SSC support the updates to Chapter 1 Introduction, including:

- Moving supplementary information (i.e., TCFD history, reason for UK public sector adoption, etc.) into annexes, and streamlined chapter.
- Clarifying materiality guidance with respect to boundaries and wider considerations, including explaining climate as a material topic and material climate-related information.

- Moving the Industry and Sector-specific guidance (i.e., to strongly consider applying this AG as well as TCFD's Supplementary Guidance) from the Scope section to the Materiality section.
- Updating the Compliance Statement Example for Phase 3 with distinction on requirements between when climate is and isn't a principal risk.

Q2. **Does FRAB-SSC support moving 'Supplementary Information from TCFD'** for each recommended disclosure (in chapters 2 to 5) from the main body to an annexe (with UK public sector interpretations and adaptations explained). The main body now only includes summary detail and references to supporting tables.

Q3. **Does FRAB-SSC support the updates to Chapter 3's Principal, New and Emerging Risks section**, including: moving general (non-climate specific) risk guidance to Annex A.

Q4. **Does FRAB-SSC support the updates to Chapter 3's Strategy recommended disclosure a) Time horizons and b) Impacts**, including:

<u>Time horizons:</u>

- Adding targeted guidance in a footnote for bodies with a limited operating/funding lifetime, but responsible for longer life projects (e.g., High Speed 2 Ltd).
- Setting out optional approach to use very-long-term as an additional time horizon category for bodies applying the end-of-century reference period for climate scenario analysis. While this option was previously considered (as a mandatory requirement) and rejected, this has been reintroduced based on feedback. This approach wasn't pursued (as mandatory) as it was felt this could complicate application.

<u>Impacts</u>

- Additional guidance added to the Materiality section addresses feedback on boundaries and scope.

Q5. **Does FRAB-SSC support removing the proposed adaption to Strategy recommended disclosure c) of '2°C and 4°C' (instead applying '2°C and below' unchanged)**. This was to address concerns around government messaging on Net Zero strategy. The proposed approach - to align with GWLs and the Climate Change Risk Assessment (CCRA) 4th methodology of 2°C and 4°C – remains unchanged (see Q6).

Q6. **Does FRAB-SSC support the updates to climate scenario analysis on reference periods and pathways**, including:

<u>Reference periods</u>

- Consolidating, explaining and re-ordering guidance to focus on government's (and a reporting entity's) transition risks for delivering net zero (by mid-century)
- Adding further guidance on the characteristics for end-of-century scenario analysis, linking these to when significant physical (and adaption) risks crystalise.
- Adding guidance on ranges for reference periods (up to 20 years).

<u>Pathways</u>

- Adding a more robust explanation for the approach to use GWLs of 2°C and 4°C (i.e., UK is small part of global emission as drivers).

- Adding further guidance on climate models and data sets (e.g., Met Office climate projects, IPCC models, ONS data sets) in the Climate Scenario Analysis section, with further detail in Annex A.
- Adding further guidance to support reporting entities incorporate transition risks into their climate scenario analysis and providing additional guidance on setting transition-pathways (although GWLs remains the default approach). The guidance covers:
    - when they may be appropriate – for insight for policy/regulatory roles, common practice in industrial group/sector, and for different geographies, where information on potential material exposure to transition risks is useful to users.
    - potential scenario providers (e.g., Network for Greening the Financial System (NGFS) (World Bank) data sets - commonly used by financial institutions, and International Energy Agency (IEA) in energy-related analysis)
    - interlinkage with other pathways and data sets (e.g., Shared Socioeconomic Pathways, projected carbon market prices)

Q7. **Does FRAB support the updated guidance on frequency and quantification** of scenario analysis?

Frequency

- Updated from '3 to 5 years' (in the ED) to 'at least every five years' with further guidance to support preparers on deciding the frequency (e.g., stress testing financial exposure, changes to underlying assumptions on technology/geopolitics, value-for-money considerations).

Quantification

- Noted the difficulty in quantifying impact on the economy, the environment, and the public, where qualitative analysis may be more appropriate.

Q8. **Does FRAB-SSC support the inclusion of an illustrative example in Annex A?** This addresses the risk considerations, and respective reporting for a public sector body within a group structure with a policy setting/regulatory role.

Q9. **Does FRAB support the updates to the application guidance? Is the Subcommittee content for the AG to be taken to FRAB for their review and approval at FRAB 154 in November 2024?**

TCFD-aligned disclosure implementation

Initial evaluation of 23-24 TCFD-aligned disclosures

B5. HMT evaluated a sample of 23-24 ARAs laid before the summer Parliamentary recess, assessing both the TCFD-aligned disclosures and existing sustainability reporting requirements. This culminated in a Good Practice Guide – refer to Appendix 2.

B6. Compliance was generally high for the first-year requirements, which focused on the Governance pillar. Better ARAs provided context on climate (and sustainability) for the organisation, and provided plans for future disclosures. Most Corporate Governance Reports sufficiently met Governance a) requirements (and were usually cross referenced), with group entities detailing broader climate risk management successfully. When included, organograms effectively clarified reporting structures, meeting for Governance b) requirements.

B7. There were a very small number of preparers who failed to understand the new requirements - simply copying the TCFD Compliance Statement, then failing to provide the required recommended disclosures for Governance. One body that was in scope failed to report.

B8. While some preparers who had tried to tackle later phase requirements did so effectively, others had included opportunities which on the surface do not appear material. Some ARAs had too much explanation on the new disclosure requirements, which felt unnecessary.

B9. The Good Practice Guide highlights 'practice to avoid' more generally, to address these issues going forward. We plan to continue monitoring how disclosures develop over the implementation period, issuing further guidance, as necessary. The draft guide is currently published on the Government Finance Function's digital platform OneFinance, and HMT presented these finding to the Sustainable Finance Network (in September). Once we've sampled and reviewed the remaining 23-24 ARAs, we intend to publish an updated version on GOV.UK in early 2025.

Training and support

B10. ICAEW hosted a training session on the TCFD Strategy requirements on 29 October in collaboration with HMT and GAD, with presentations from technical experts and TfL who have started to provide TCFD disclosures for Strategy. HMT is working with GAD and other experts to develop further training and support for preparers in advance 2025-26 when these are mandated.

Forward look

Sustainability Thematic Review

B11. Central government sustainability reporting requirements are set in the Sustainability Reporting Guidance (SRG). This aligns closely with the Defra's Greening Government Commitments (GGCs) which set central five-year environmental and climate targets. The next GGC round begins in April 2025.

B12. In advance of GGC25-30, we propose conducting a thematic review on current sustainability reporting practice and requirements in central government, which also considers wider developments in the sustainability reporting landscape – by standard setters and in the private sector. While previous SRG updates have been shared with the Subcommittee[2]; a thematic review will allow for a more comprehensive evaluation to address issues identified in the 2023-24 ARA review discussed above and lay the groundwork to consider future reporting approaches (noting upcoming UK Sustainability Reporting Standards (UK SRSs) from the Department for Business and Trade (DBT) and IPSASB's Exposure Draft – covered later in this paper).

The Subcommittee

B13. The FRAB-SSC Terms of Reference refer to Appendix 1 in [FRAB 145 (16)](#) state that FRAB may consider these climate and sustainability frameworks. Our view, expressed by the subcommittee at previous meetings and from others across the public sector and in policy teams is that that a broader cross-government and public sector review and project (with a wider stakeholder base) is needed to decide future sustainability reporting to ensure policy teams from across government and views from relevant authorities are considered to maximise strong alignment.

B14. If FRAB-SSC supports the AG being taken to FRAB 154, we propose not arranging a further FRAB-SSC at this point. HMT will provide the sustainability thematic review

[2] Updates and developments to the SRG (and GGCs) were included in the FRAB-SSC workplan - refer Annex 2 in FRAB 145 (16)

recommendations alongside an update on sustainability reporting developments as a paper at FRAB 155 in March 2024. Beyond that, HMT will bring a paper to the full FRAB board on sustainability reporting more generally (and may reconvene the Subcommittee for a more detailed discussion).

Updates to the Sustainability Reporting Landscape

UK Private Sector

DBT ISSB endorsement

B15. On 18 July 2024, the UK Sustainability Disclosure Technical Advisory Committee (TAC) launched a call for evidence[3] to seek views on the ISSB's IFRS-S1 and IFRS-S2 in the UK private sector (closed on 11 October 2024). From a high-level analysis of the 41 published responses, there was support for the endorsement of IFRS S1 and S2, however, many respondents highlight the need for further guidance on implementation, particularly around materiality, Scope 3 emissions, and ensuring that the standards are workable for organisations of all sizes. DBT aims to make an endorsement decision by Quarter 1 2025[4].

Climate Financial Disclosures

B16. As Task Force on Climate-Related Financial Disclosures (TCFD) -aligned disclosure has become mandatory, companies are refining information, improving scenario analysis, and expanding their focus on climate-related risk mitigation and adaptation strategies. The FRC did not conduct a climate thematic review in 2024. However, their general review of annual reports noted larger companies are in the process of developing their climate-related disclosures (in line with statute 2022/31), with more of them providing additional information on progress towards net zero. They did, however, identify examples of greenwashing, with this issue remaining an area of concern for users.

UK Public Sector Policy

Emissions Measurement, Reporting and Target-Setting

B17. The Department for Energy Security and Net Zero (DESNZ) published a report[5] which reviews the approaches to emissions measurement and reporting across the UK public sector, exploring how reporting can support decarbonisation. It identifies mechanisms, effectiveness factors, and challenges for emissions reporting, and makes five recommendations to improve the process, including: clear and consistent guidance; clear purpose of emissions reporting; emission database and tools; capacity building; and governance and leadership. HMT is considering these developments, and working with DESNZ to drive better emissions reporting. There are no immediate consequences to the AG.

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[3] www.frc.org.uk/library/external-groups/uk-sustainability-disclosure-tac/uk-sustainability-disclosure-tac-projects/uk-endorsement-of-ifrs-s1-ifrs-s2-call-for-evidence/

[4] www.gov.uk/guidance/uk-sustainability-reporting-standards

[5] www.gov.uk/government/publications/emissions-measurement-and-reporting-approaches-for-the-public-sector

International Standard Setters and Regulation

International Public Sector Accounting Standards Board

B18. In September 2024, IPSASB approved their first Sustainability Reporting Standard Exposure Draft (IPSASB SRS ED 1) on Climate-related Disclosures[6] with a launch event on 1 November 2024. The consultation is expected to close in late February 2025.

B19. While in the past FRAB (and FRAB-SSC) have not respond to IPSASB consultations, HMT independently made the decision to respond to IPSASB's initial consultation to develop a public sector specific standard – refer to Appendix 2 in FRAB 148 (16). Once published, HMT will decide whether to respond directly to IPSASB's SRS ED 1.

B20. The 'Developing International Public Sector Sustainability Reporting Standards Project' is being supported by the World Bank.

International Accounting Standards Board

B21. In July 2024, the IASB issued an Exposure Draft, Climate-related and Other Uncertainties in the Financial Statements[7], with feedback requested by 28 November 2024. The ED introduces eight illustrative examples to guide companies on how to apply IFRS Accounting Standards in reporting climate-related and other uncertainties. The examples do not alter IFRS requirements, instead aiming to clarify application, particularly in response to stakeholders' concerns that climate-related information in financial statements often lacks consistency with other corporate disclosures.

B22. The proposed examples span scenarios across various industries and reporting challenges (i.e., materiality judgments, assumptions in impairment assessments, credit risk, and decommissioning obligations). For instance, Example 1 illustrates when material climate-related information is disclosed without quantitative impact, while Example 3 shows how an entity might disclose key assumptions in determining asset recoverable amounts under IAS 36. The IASB is seeking feedback on whether these examples will enhance the clarity of climate-related reporting in financial statements, the suitability of including these as illustrative examples in IFRS, and the technical content of the scenarios.

B23. Once these examples have been finalised, HMT will consider whether there are any specific UK public sector considerations, with particular reference to the guidance brought to the Subcommittee and Board – refer to Annex 4 in FRAB 150 (11).

International Sustainability Standards Board

B24. The ISSB is working alongside other regulators and standard setters, including the SEC and European Sustainability Reporting Standards (ESRS), to promote alignment and reduce reporting burden for multinational companies. Furthermore, the G20 and IOSCO have endorsed these developments, supporting the global adoption of standardised reporting frameworks.

[6] www.ipsasb.org/consultations-projects/sustainability-climate-related-disclosures

[7] www.ifrs.org/projects/work-plan/climate-related-risks-in-the-financial-statements/

Annex 2

TCFD-aligned Disclosure Exposure Draft – Phase 3

Exposure Draft Consultation

C1. The Phase 3 ED consultation closed on Monday 26 September 2024. In total, fourteen responses were received from preparers and representatives from the following organisations:

- Department for Health and Social Care (DHSC)
- Department for Science, Innovation and Technology (DSIT)
- Department for Environment Food and Rural Affairs (Defra)
- *[ministerial department – identifiers removed on publication at request of respondent. Labelled "Dep-X" herein]*
- Sizewell C Ltd
- Competition and Markets Authority (CMA)
- *[regulator – identifiers removed on publication at request of respondent. Labelled "Reg-Y" herein]*
- High Speed Two (HS2) Ltd
- Audit Scotland
- The Institute of Chartered Accountants in England and Wales (ICAEW)
- Association of Chartered Certified Accountants (ACCA)
- Institute of Chartered Accountants of Scotland (ICAS)
- Healthcare Financial Management Association (HFMA)
- PricewaterhouseCoopers (PwC)

Formal responses have been published. Some submissions represent individual views from within organisations rather than official organisational positions. Where possible, relevant details have been included; however, these responses have not been published in full. Additionally, details of certain respondents have been withheld upon request to protect their anonymity. This approach aims to encourage open and candid feedback from affected parties while maintaining a level of transparency consistent with the objectives of the original consultation.

C2. Although response numbers were relatively low compared to similar consultations (e.g., implementing a new IFRS Standard), there was broad representation from across the sector—including large ministerial and non-ministerial departments, arms-length bodies (ALBs), other public sector organisations, partner bodies, and external experts from professional and training institutions. The majority of respondents provided detailed feedback on each question.

C3. Many TCFD-Technical Working Group, other cross public sector preparers, and policy teams participants provided detailed feedback on drafts circulated before the ED's publication and, therefore, did not formally respond to the consultation. Verbal feedback at training events since the ED's release has been positive.

C4. Respondents were broadly supportive of our overall approach to the Strategy pillar, including the individual interpretations and adaptions proposed for the Strategy recommended disclosures. The consultation responses have been included in Annex 2, alongside our views and resulting changes to the guidance. The following sections summarise more detailed feedback received on the ED.

Principal, new, and emerging risks

C5. Clarity and examples needed: Several respondents expressed the need for more detailed and worked examples, as well as clearer guidance on identifying and managing new and emerging risks.

C6. Consistency across departments: Several respondents highlighted the importance of achieving consistency across departments in risk reporting and presentation.

C7. Risk categorisation: Requests for stronger alignment with the Orange Book taxonomy rather than TCFD-specific by a small number of respondents.

Strategy and guidance on risk assessments

C8. Need for Harmonisation: Some mentioned the overlap with other programs (National Adaptation Programme) and the need for harmonisation and clearer guidance.

C9. Time horizons: Multiple respondents requested clearer definitions of short-, medium-, and long-term time horizons.

C10. Materiality guidance: Some called for additional guidance on applying materialitq1 y in risk assessments and disclosures.

Climate scenario analysis

C11. Adaptation to Strategy c): Many respondents disagreed with changing scenarios from considering different scenarios including a 2C and below to a 2C and 4C

C12. Frequency of analysis: Most respondents agreed on conducting scenario analysis every 3 to 5 years but suggested more guidance on when updates are required.

C13. Need for detailed examples: Several respondents emphasised the need for more detailed and worked examples to support preparers.

C14. Alignment with CCC pathways: Most respondents supported aligning climate scenario analysis with the Climate Change Committee's pathways but requested more guidance and clarity. Some requested more focus on transition pathways (see next section).

Transition risks, transition-driven pathways and shadow carbon pricing

C15. Physical/transition risk balance: Respondents requested more focus on transition risks, with guidance needed on how these will crystalise by 2050, while physical risks will emerge 2080-2100. This included how government’s net zero target is incorporated into the approach for climate scenario analysis.

C16. Detailed guidance needed: Respondents requested more detailed guidance and examples on transition pathways and shadow carbon pricing.

C17. Sector-specific guidance: Several respondents highlighted the need for sector-specific examples and guidance to ensure relevance and applicability.

Reference periods

C18. Common reference periods: Most respondents supported setting common reference periods (e.g., mid-century and end of the century) but called for flexibility and clarity in their application. This was particularly relevant for the 2050 anchor point where jurisdictions and relevant authorities have set more ambitious net zero targets of 2045 (compared to the national target of 2050).

C19. Challenges for long-term projections: Some pointed out the inherent uncertainties in long-term projections and suggested more guidance on how to handle these.

General feedback on the guidance as a whole

C20. Ease of reading and accessibility: Multiple respondents suggested making the guidance more accessible and easier to read, especially for non-financial professionals. There was feedback that the ED was too long (and similar feedback was received from FRAB in June 2024).

C21. Sustainability beyond climate: One respondent recommended expanding the guidance to include broader sustainability issues and nature-based disclosures. Another raised concerns that TCFD adoption could open the door to a multitude of other frameworks (e.g., Taskforce on Nature-related Financial Disclosures) which may not be appropriate for the public sector and could adversely impact the usability of annual reports and accounts.

C22. Support for TCFD Framework: Some respondents expressed strong support for adopting the TCFD framework, highlighting its benefits for consistency and comparability in climate risk reporting.

C23. Wider considerations: There was support for including wider considerations in the climate-related disclosures - however, multiple respondents expected significant challenges with quantification. One respondent noted their concerns on the wider

C24. Tailored guidance for different entities: A respondent emphasised the need for tailored guidance for entities with different operational lifetimes and broader considerations.

Overview of consultation responses

Summary respondents feedback grouped by view/suggested improvement

Views/feedback	Responses	Question	Suggested Improvements
More detailed and worked examples, recommended reporting layout and format needed for greater consistency.	CMA, Defra, DSIT, HS2	Q1, Q11	Provide more detailed and worked examples. Include recommended reporting layout and format to achieve consistency across departments.
Support for not adapting Strategy recommended disclosures and the Supporting Guidance from TCFD.	CMA, DSIT, Sizewell C, HS2, ACCA, ICAEW	Q2a, Q3a	Continue with the current approach without adaptation but provide additional guidance on materiality considerations.
Concerns about the clarity and applicability of the guidance for emerging risks and materiality.	Defra, DSIT, Audit Scotland	Q1, Q3c	Provide clearer guidance on emerging risks, including examples and definitions. Further guidance on applying materiality, particularly in the context of policy and regulatory functions.
Support for a common reference period of mid-century (2050s) but with flexibility for entity-specific factors.	[Dep-X], Sizewell C, HS2, ICAEW, ACCA	Q5	Allow flexibility for entities to justify or explain their chosen reference periods. Consider the availability and reliability of data for longer-term periods.
Support for setting a common reference period of the end of the century (2080-2100) for entities with long-term impact.	[Dep-X], Sizewell C, HS2, ICAEW, ACCA	Q6a	Ensure guidance acknowledges the inherent uncertainties with long-term horizons and provide flexibility where appropriate.
Agreement on the need for three reference periods (near-term, mid-century, end-century) with flexibility in near-term periods.	[Dep-X], Sizewell C, HS2, ICAEW, ACCA	Q7	Provide more explicit guidance on selecting near-term reference periods and ensure alignment across government institutions.
Support for aligning climate scenario analysis with global warming level/temperature pathways set out by the CCC.	CMA, Defra, DSIT, Sizewell C, [Dep-X], HS2, ICAEW	Q8	Clarify the time periods these pathways refer to and provide guidance on alternative physical and socio-economic pathways.

Need for more guidance on transition risks and transition pathways (including on shadow carbon pricing.	DSIT, Sizewell C, [Dep-X], ICAEW, ACCA	Q9	Provide more examples and clear guidance on transition risks, transition-driven scenarios and shadow carbon pricing. Regularly review and update this section to reflect evolving standards and practices.
Support for conducting scenario analysis every 3 to 5 years but with considerations for more frequent updates if assumptions change.	CMA, DSIT, Sizewell C, [Dep-X], HS2, ICAEW, ACCA	Q10	Issue clear central assumptions and ensure alignment across departments. Consider frequent monitoring of new scenarios and developments.
Challenges and concerns regarding the duplication of efforts and overlap with other programmes like the National Adaptation Programme.	Defra, [identifier removed - informal response]	General Comments Q3	Clarify the scope and avoid duplication of efforts. Streamline reporting to reduce redundancy with other programmes.
Need for central guidance and assumptions to ensure consistency across departments.	DSIT, HS2	Q10, Q11	Issue clear central assumptions to ensure consistency and alignment across departments.
Suggested removal of revenue size thresholds consideration for robust scenario analysis.	DSIT, Sizewell C, Audit Scotland, ICAEW	Q4	Remove revenue size thresholds and provide guidance on applying qualitative/quantitative considerations for scenario analysis.
Support for the inclusion of impacts of policies and regulations on climate-related disclosures.	ICAEW, Defra, [identifier removed - informal response]	General Comments Q2b, Q3b	Expand the guidance on how to determine which policies to include and their scope. Clarify the materiality considerations for policy and regulatory impacts.
Concerns about the complexity and resource intensity of implementing the guidance.	HS2, DSIT, ICAEW	Q3c, Q10	Provide prioritisation guidance for initial reporting years and consider the resource implications for reporting entities.
Support for the TCFD framework and the use of 'comply or explain' approach.	ICAEW, ACCA	General Comments Q2a	Continue with the TCFD framework and 'comply or explain' approach to ensure relevant and useful disclosures.

Consultation support for each question

Not all respondents utilised the consultation template or answered the questions, instead providing free form analysis or going through the ED to address specific paragraphs and sections.

	Question	CMA	DSIT	Sizewell C	[Dep-X]	ICAEW	HS2	Audit Scotland	ACCA	DHSC
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?	No	Yes	Yes	N/A	Yes, with changes	Yes, with changes	N/A	Yes, with changes	Yes
2a	Do you support our approach to not adapt Strategy recommended disclosure a) or the Supporting Guidance from TCFD?	Yes	Yes	Yes	N/A	Yes	Yes	N/A	Yes	Yes
2b	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?	N/A	No	Yes	N/A	Yes, with changes	Yes, with changes	Yes, with changes	Yes, with changes	Yes
3a	Do you support our approach to not adapt Strategy recommended disclosure b) or the Supporting Guidance from TCFD?	No	Yes	Yes	N/A	Yes	Yes	N/A	Yes	Yes
3b	Is the additional clarification and guidance on impacts with respect to broader public sector considerations sufficiently clear? If not, why not? Do you believe further guidance is required in this sub-section?	N/A	Yes, with changes	Yes, with changes	N/A	No	Yes	N/A	Yes	Yes
3c	Are the disclosure requirements and guidance for quantification sufficiently clear? Do they strike the appropriate balance, considering the utility	N/A	No	Yes	N/A	Yes, with changes	Yes, with changes	Yes, with changes	Yes	Yes, with changes

	of the information for decision-makers and annual report users, as well as the ability of reporting entities to adequately make a quantified assessment?									
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?	N/A	Yes	Yes	N/A	Yes	Yes	Yes, with changes	Yes	Yes
5	Are you supportive of the application guidance setting a common reference period of mid-century (2050s)? If not, why not? Which alternative reference period (or anchor point) would you suggest, if any?	Yes	Yes, with changes	Yes, with changes	Yes	Yes	Yes	Yes, with changes	Yes	Yes
6a	Are you supportive of the application guidance setting a common reference period of the end of the century (2080-2100)?	Yes	No	Yes	No	Yes	Yes	Yes	Yes	Yes, with changes
6b	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.	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes, with changes
7	Are you supportive of mandating a total of three reference periods (or points)? Are you supportive	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

	of near-term reference periods (or points) being selected by the organisation?									
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?	Yes	Yes	Yes	Yes	Yes, with changes	Yes	Yes	Yes, with changes	Yes
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?	N/A	Yes, with changes	Yes, with changes	Yes, with changes	Yes	Yes	N/A	Yes, with changes	Yes, with changes
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?	Yes	Yes, with changes	Yes	Yes, with changes	Yes	Yes	Yes	Yes	Yes, with changes
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?	No	Yes, with changes	Yes	Yes	Yes	Yes, with changes	Yes	Yes	Yes, with changes

HM Treasury

TCFD-aligned disclosure

Application guidance

December 2024

Appendix 1b - Tracked changes between Phase 3 Exposure Draft and final Application Guidance published on GOV.UK.

Note - an earlier version of the draft Application Guidance was was circulated to FRAB and the Sustainability Subcommittee. This tracked changes version is to the final published Application Guidance on GOV.UK. Please refer to: https://www.gov.uk/government/publications/tcfd-aligned-disclosure-application-guidance

TCFD-aligned disclosure

~~Exposure draft:~~ Application guidance

~~Phase 1, 2 & 3~~

July 2024

HM Treasury

~~Exposure draft: Application guidance~~

~~Phase 1, 2 & 3~~

December 2024

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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~~enhancing 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 third and final ~~stage~~phase – refer to Annex C 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 authority[1]. 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.

[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 National Health Service (NHS) bodies, the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC) for local government.

(b) describe management's role in assessing and managing climate-related issues.

- 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~~[†]lower scenario.

† ~~Certain~~Denotes UK public sector interpretation and adaptations ~~have been made~~applied to ~~the TCFD~~TCFD's recommended disclosures ~~as~~and supporting guidance 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 the greater chance of warmer, wetter winters and hotter, dryer summers, plus more variable rainfall and more severe storms. Sea levels are rising by approximately 4 millimetres per ~~year~~ 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, and further information on TCFD in Annex A~~:~~.

~~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.~~

~~A.1 TCFD's aim is for these disclosures to promote the management of climate-related financial risks and opportunities across the economy and financial system.~~

~~1.5 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; and The Third Climate Change Risk Assessment (CCRA) Technical Report

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

Background

~~1.6 In 2015, the FSB established the TCFD to develop~~The Task Force's recommendations for ~~more effective~~ climate-related financial disclosures ~~to promote more informed decisions~~in annual reports and~~, in turn, enable stakeholders to understand better the concentrations of carbon-related assets[3] and exposures to climate-related risks.~~

~~1.7~~1.3 ~~The Task Force~~ accounts, published ~~their recommendations~~ in ~~2017 [4], which~~2017[5], proposed:

- four widely adoptable recommendations across four thematic areas (Governance, Strategy, Risk Management, and Metrics and Targets) – please refer to Figure A.5 in Annex A~~)~~;
- 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 – refer to Figure A.5 in Annex A;
- general and sector-specific guidance for applying the framework;

- seven key principles for effective disclosure:

1) relevant
2) specific and complete
3) clear, balanced, and understandable
4) consistent over time
5) comparable across the sector, industry, or portfolio
6) reliable, verifiable, and objective
7) timely

~~1.8 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.~~

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

~~1.9 The UK government formally endorsed the TCFD framework~~ [6] ~~and has mandated TCFD-aligned disclosure for large entities in the private sector~~ [7].

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

[7] ~~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~~

~~† Certain interpretation and adaptations have been made to the TCFD recommended disclosures as set out in subsequent chapters.~~

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

~~Rationale for public sector adoption~~

1.4 ~~-~~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~~The UK government formally endorsed the TCFD framework and has mandated TCFD-aligned disclosure for large entities in the private sector [8].

~~1.10~~1.5 This guidance 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.

~~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 [9] (ISSB) and the International Public Sector Accounting Standards Board [10] (IPSASB).~~

Rationale for public sector adoption

Incorporating climate-related disclosures into annual reports enhances decision-making by providing critical insights into future risks and opportunities via horizon scanning. This helps organisations strategically plan and build resilience, ensuring long-term value and transparency for stakeholders, improving climate risk management and enhancing response efforts.

~~A.2A.1 Implementing TCFD's recommendations aligns the UK public sector with global best practice.~~

Application

~~1.11~~1.6 This guidance should be read in conjunction with the ~~('TCFD's guidance').~~TCFD's Guidance: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures. Reporting entities should familiarise themselves with the TCFD recommendations and the relevant supporting guidance.

~~1.12~~1.7 ~~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,~~explained in Annex A. In

[8] BEIS's Climate-related financial disclosures for companies and limited liability partnerships and The Companies Act (Strategic Report) (Climate-related Disclosure) Regulation 2022: https://www.legislation.gov.uk/uksi/2022/31/contents/made

~~[9] ISSB's has issued IFRS S1 General Sustainability-related Disclosures and IFRS S2 Climate-related Disclosures www.ifrs.org/groups/international-sustainability-standards-board/~~

~~[10] IPSASB's consultation on Advancing Public Sector Sustainability Reporting: www.ipsasb.org/publications/consultation-paper-advancing-public-sector-sustainability-reporting~~

addition, Figure A.5 (in Annex A) sets out the TCFD framework's structure and recommended disclosures.

Implementation approach

~~1.13~~ Reporting entities will likely benefit from adopting TCFD-aligned disclosure in a phased approach. Annex C~~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:~~

provides details on phased implementation, including when the application guidance was published.~~**Phase 1 (issued July 2023) addressed:**~~

- ~~general principles (including scoping);~~
- ~~the Governance recommendation and recommended disclosures[11] (a) and (b);~~
- ~~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).~~

~~1.14~~1.8 ~~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.

~~1.15 The implementation timetable for in-scope reporting entities in central government, including years of applicability, has been outlined in .~~

Scope

~~1.16~~1.9 Reporting entities must verify whether they are 'in-scope' of this guidance – refer to ~~.~~Figure 1.2 Flowchart for applying this guidance.

~~[11] 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).~~

Central government

~~1.17~~1.10 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.

~~1.18~~1.11 All central government departments (ministerial and non-ministerial) ~~must~~are required to apply this guidance.

~~1.19~~1.12 Arm's-length bodies (ALBs) are required to follow this guidance where they have:

- more than 500 employees [12]; or,
- total operating income and funding received (including grant-in-aid) exceeding £500m; or,
- been instructed by their sponsoring department to follow this guidance.

~~1.20~~1.13 This guidance is not mandatory for:

- ALBs not explicitly brought into scope in paragraph (para.) ~~;~~1.12;
- Other central government bodies where existing TCFD-related regulatory or legislative requirements override this guidance - refer to para. ~~;~~1.18;
- Wider public sector bodies (unless specifically directed by their respective relevant authority or relevant regulation~~/~~ and legislation – refer to para. ~~).~~1.14).

Wider public sector

~~1.21~~1.14 This guidance does not automatically apply to local government, NHS bodies (Trusts, Foundations, Integrated Care Boards), public corporations, and entities in the devolved administrations.

~~1.22~~1.15 Relevant authorities may direct reporting entities in their jurisdiction 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~~ (e.g., Department for Health and Social Care (DHSC) sets out their TCFD-aligned disclosure~~.~~ requirements in the Group Accounting Manual (DHSC GAM).

Voluntary adoption

~~Significantly impacted sectors and industrial groups~~

~~1.23 Certain sectors and industries are likely to be more impacted by climate-related issues. TCFD identified certain industries and groups,~~

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

~~categorised in , 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.~~

~~1.24 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.), they should strongly consider making TCFD-aligned disclosure.~~

~~1.25~~1.1 ~~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)~~

1.16 ~~Furthermore, such entities~~Applying the TCFD recommendations is useful for decision makers and supports accountability and transparency to report users. As a result, public sector bodies may choose to voluntarily apply this guidance – in full or in part.

~~1.26~~1.17 Where a reporting entity is impacted by climate issues, they should ~~strongly~~ consider ~~applying the . identifies~~the benefit of TCFD information – even where they do not meet the specific ~~industries and groups that the Task Force has provided supplementary guidance for~~criteria for mandatory disclosure laid out in this chapter.

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

		~~Governance~~		~~Strategy~~			~~Risk Management~~			~~Metrics and Targets~~		
~~Industries and Groups~~		~~a)~~	~~b)~~	~~a)~~	~~b)~~	~~c)~~	~~a)~~	~~b)~~	~~c)~~	~~a)~~	~~b)~~	~~c)~~
~~*Financial*~~	~~Banks~~			■			■			■	■	
	~~Insurance Companies~~				■	■	■	■		■	■	
	~~Asset Owners~~				■	■	■	■		■	■	
	~~Asset Managers~~				■		■	■		■	■	
~~*Non-Financ*~~	~~Energy~~				■	■				■		
	~~Transportation~~				■	■				■		

~~Materials and Buildings~~	■	■		■
~~Ag. Food and Forest Products~~	■	■		■

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

~~Entities subject to~~ Other climate-related ~~disclosure~~ disclosures resulting from legislation or regulation

~~1.27~~1.18 Where an entity is subject to legislation or regulation relating to climate-related disclosures or similar, they must follow the related requirements in full. This can be summarised as follows:

- Publicly quoted companies, large private companies, and Limited Liability Partnerships (LLPs) should check the ~~BEIS~~ mandatory climate-related financial ~~disclosure~~disclosure[4] and UK Sustainability Reporting Standards (UK SRSs) (expected ~~early~~ 2025)[13].
- Premium-listed and standard-listed companies should check the Financial Conduct Authority (FCA) Listing Rules[14].
- 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~~

[13] The government is a strong supporter of the ISSB, and is working to endorse the first two sustainability standards in the UK private sector: www.gov.uk/guidance/uk-sustainability-disclosure-standards

[14] www.fca.org.uk/firms

~~1.28 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.~~

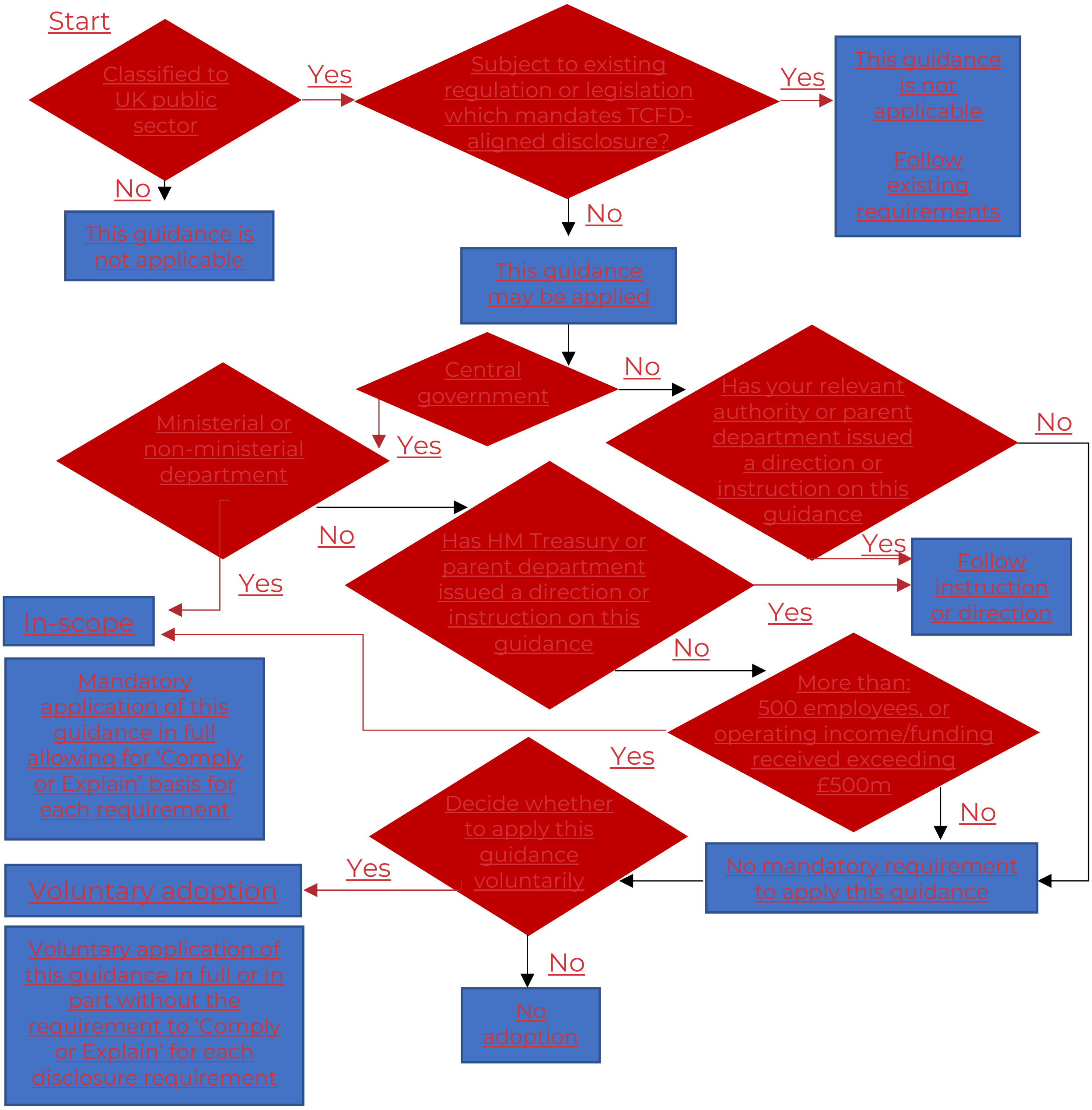
~~1.29 Where a reporting entity is significantly impacted by climate-related issues, they should consider the need for TCFD disclosure – even where they do not meet the specific criteria for mandatory disclosure laid out in this chapter. In addition to increased transparency for key stakeholders across the four pillars, the related disclosure provides management with decision-useful information.~~

~~1.30 Reporting entities that are significantly impacted by climate change should also consider whether other financial reporting disclosures are necessary under IFRS Accounting Standards[15].~~

~~1.31 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.~~

~~[15] IFRS published educational material on effects of climate-related matters on financial statements in July 2023~~

Figure 1.2 Flowchart for scoping and applying this guidance



~~Concepts and Principles~~

~~Comply or explain~~

~~1.32~~1.1 ~~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.~~

~~1.33~~1.1 ~~Where an entity chooses to report voluntarily against this guidance, they are not required to explain non-compliance against disclosure requirements.~~

~~1.34 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)~~ [16] ~~concerning the use of public funds.~~

~~1.35~~1.1 ~~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.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.).~~

~~1.36~~1.1 ~~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~~

~~1.37 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~~

~~1.38 Reporting entities~~ [17] ~~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').~~

~~The compliance statement must be presented at the start of the TCFD-~~

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

[17] ~~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.~~

Mandatory requirements

~~1.39~~ The Task Force requires disclosures 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.~~

~~1.40 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.~~

~~1.41 For example, for Phase 2 a central government department must state which of the recommended disclosures for~~to the Governance~~,~~ and Risk Management ~~and for~~ pillars, as well as 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 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.~~

~~1.42 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~~

~~1.43 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.~~

~~1.44~~1.19 ~~For central government~~recommended disclosure (b) – on Scope 1[18] and Scope 2 GHG emissions only – to be included in 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.~~, without being subject to a materiality assessment. This information is fundamental to understanding an organisation's ability to identify, assess and manage climate-related risks.

1.20 Other recommended disclosures – Strategy (a) to (c) and Metrics and Targets (a) and (c) – are subject to a materiality assessment – refer to para. 1.23.

	Governance		Strategy			Risk Management			Metrics and Targets		
	(a)	(b)	(a)	(b)	(c)	(a)	(b)	(c)	(a)	(b)	(c)
Mandatory - not subject to materiality assessment	■	■				■	■	■		■ Scope 1 and 2 GHG emissions only	
Subject to materiality assessment			■	■	■				■		■

~~1.45 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

~~1.46~~1.21 Information is material if its omission or misrepresentation could reasonably be expected to influence the decisions primary users take based on the annual report and accounts 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 overall[19].

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

[19] Guidance in this section is in line with our existing approach to government financial reporting and the FReM – refer to the section on Principles for Government Financial Reporting.

Materiality assessments

~~1.47~~1.22 Materiality assessments of climate-related information should be consistent with the materiality assessment of other topics and information included in ~~their~~an entity's annual report ~~(~~and accounts~~)~~.

~~1.48 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~~

~~1.49 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.~~

~~1.50 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 1[20] and Scope 2 GHG emissions only – to be included in annual reports, without being subject to a further materiality assessment.~~

~~1.51 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~~	■	■				■	■	■		■ ~~Scope 1 and 2 GHG emissions only~~	
~~Subject to materiality assessment~~			■	■	■				■		■

~~Materiality assessment~~

~~1.52~~1.23 Materiality assessments require ~~an assessment~~analysis to establish an organisation's exposure and vulnerability to climate-related issues, and/or whether these constitute a principal risk (or significant component of a principal risk) for the organisation. Please refer to Chapter 3~~3~~ for further guidance on principal risks.

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

Primary users

1.24 In making materiality assessments, reporting entities must consider the informational needs of the primary users of their annual reports and accounts.

1.25 For central government, Parliament is the primary user, with growing interest on climate change through committees, Commons debates, and parliamentary questions. Central government bodies should take this into account when considering whether climate-related information is material.

~~1.53~~ Similarly, there has been an increased interest from the public and other stakeholders. ~~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 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.~~

1.26 Relevant authorities across the public sector require material information in annual reports; however, the determination of who constitutes a primary user may vary.

1.27 Different reporting channels are used across the UK public sector for different reporting purposes. This can also impact judgements on what information is included in the annual report, and in what level of detail.

1.28 Where an entity's operations, financial planning or strategy are significantly impacted by climate change or the transition to net zero (collectively referred to as 'climate'), and/or climate represents a principal risk (or significant component of a principal risk) for the organisation, climate information will be material for primary users. Similarly, where an entity's policy, regulatory or legislative remit is heavily influenced by or has a significant influence on climate, then climate impacts the organisation's wider strategy (and thus is likely to represent material information).

Material climate-related information

~~1.55~~1.29 Reporting entities should avoid applying a checklist approach to materiality and ~~should~~must consider the needs of users when judging what is material[21]. 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

21 The Government Financial Reporting Review (April 2019~~: Government Financial Reporting Review: ~~):

effectiveness. ~~Please refer to .~~Please refer to Figure 1.3 Minimum requirements for in-scope reporting entities and Figure 1.4 Principal risk reporting requirements and materiality assessments.

Significantly impacted sectors and industrial groups

1.30 TCFD identified certain industries and groups, considered to potentially be most affected by climate change and the transition to a lower carbon economy. The Task Force published TCFD Supplementary Guidance for these industries and groups for recommended disclosures related to Strategy, Risk Management and Metrics and Targets – refer to Table 1.1.

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

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

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

1.31 Where climate is likely to impact public sector bodies operating, regulating or setting policy in these industries and groups, they should strongly consider making TCFD-aligned disclosure, and applying TCFD's Supplementary Guidance. For example, a regulator in the energy sector should strongly consider applying the TCFD Supplementary Guidance and alongside this guidance. Conversely, if a reporting entity who is not operating in these industries or groups, and whose only interaction with these industries or groups is via arm's length commercial transactions would not need to consider the Supplementary Guidance.

1.32 Where these activities are not the primary or sole function of the body but still apply to certain operations, regulation or policy setting functions; the organisation should assess the overall materiality of the related information. This assessment should consider:

- The relative importance of the associated climate-related risks, opportunities (and impacts) from these operations, compared to other risks, opportunities (and impacts) 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)

Figure 1.3 Minimum requirements for in-scope reporting entities

Start

In-scope reporting entity

Mandatory for all in scope reporting entities

TCFD Compliance Statement
including:
· which recommendations and recommended disclosures have been complied with, and which have not;
· a short summary of the reason for non-compliance, and any plans for future disclosure.

Mandatory disclosure requirements which are not subject to a materiality assessment

Governance recommended disclosure (a) and (b)

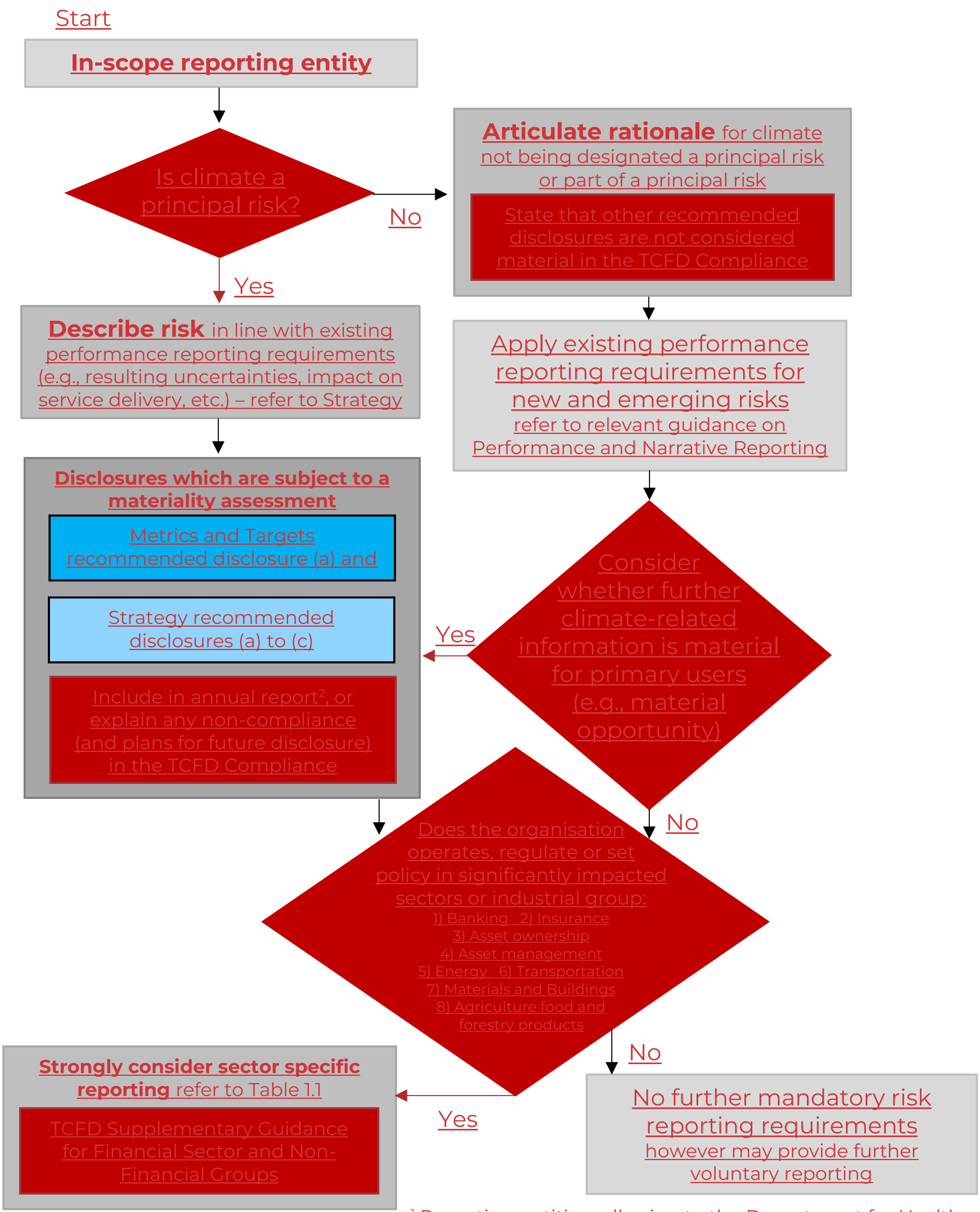
Risk Management recommended disclosure (a) to (c)

Metrics and Targets recommended disclosure (b)
Scope 1 and Scope 2 mandatory

For these disclosures, include in the annual report (where possible) and explain any non-compliance and plans for future disclosure in the TCFD Compliance Statement

Assess whether climate is a principal risk (or opportunity)
Refer to Figure 1.4

Figure 1.4 Principal risk reporting requirements and materiality assessments



[1] Reporting entities adhering to the Department for Health and Social Care (DHSC) Group Accounting Manual (GAM) are not required to include a TCFD Compliance Statement
[2] Relevant authorities may direct preparers to report in separate publications

Broader considerations

~~1.56~~1.33 The government and ~~wider~~ public sector bodies act in the public interest~~. Public sector bodies~~, and 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.

~~1.57~~1.34 Organisations should consider the wider impact of climate ~~-related risks~~ on their broader responsibilities, as well as their ~~direct~~strategic objectives and priority outcomes.

Sphere of influence

~~1.58~~1.35 Government and public sector bodies may have powers (e.g., fiscal, legislative, ~~or~~ regulatory ~~powers~~, etc.) to influence the wider ecosystem in which they operate. Primary users of public sector annual reports ~~are likely to~~will be interested in ~~the~~ broader ~~risk environment, which may extend~~information, extending to the impact of the organisation 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~~.

~~1.59~~1.36 ~~When considering how to implement~~Consequently, while the TCFD recommendations~~, reporting entities~~ are entity-level disclosures, organisations must consider external climate impacts to their wider organisational strategy, and 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.

~~1.60~~1.37 For performance reporting, the Chartered Institute of Public Finance and Accountancy (CIPFA)[22] 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.

[22] CIPFA's Public Sector Reporting: time to step up: www.cipfa.org/protecting-place-and-planet/sustainability-reporting

- **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.

Concepts and Principles

Comply or explain

1.38 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.

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

1.40 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) [23] concerning the use of public funds.

1.41 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. When assessing value for money, this must be applied to each requirement, not on adopting the framework in its entirety.

1.42 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).

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

Compliance Statement or Compliance Summary

1.44 Reporting entities [24] must prepare an overall summary or statement of the extent of consistency with the TCFD's recommended disclosures. The compliance information must be presented at the start of the TCFD-related disclosure section in the annual report and must detail:

- which recommendations and recommended disclosures have been complied with and which have not;

[23] MPM

[24] 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.

- for those which have not, a short summary of the reason for non-compliance, and any plans for future disclosure.

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/does not consider] 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 (b)

[further recommended disclosure are only mandatory (subject to comply or explain) where climate is deemed a principal risk]

- Metrics and Targets - recommended disclosures (a) and (c)

- Strategy – recommended disclosure (a) and (b – partial)

[Entity] has [detail progress on Strategy recommended disclosure (b)]. [Entity] plans to provide recommended disclosures for Strategy recommended disclosure (c) 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 disclosures, for example, uncertainty in their assumptions, connectivity with other sections of their annual report, differentiating between qualitative and quantitative responses, etc.

Information location

Publication

~~1.61~~1.46 The TCFD recommends that material climate-related information is included in an organisation's main financial fillings (or published financial statements for public sector bodies) 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[25], these may link to narrative

[25] The 'net zero target' refers to a government commitment to ensure the UK reduces its GHG emissions by 100% from 1990 levels by 2050. If met, this would mean the amount of GHG emissions produced by the UK would be equal to or less than the emissions removed by the UK from the environment.

information on management's management of related risks in the future. Integrated annual reports, which include both performance and financial information, encourage better financial management[26].

~~1.62 The Task Force recommends using separate TCFD reports for certain industries (identified in) 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

~~1.63~~1.47 ~~Reporting entities in~~ Central government bodies 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 Chapter 5 of the Government Financial Reporting Manual (FReM) for further details.

~~1.64~~1.48 Reporting entities may also choose to include information related to the TCFD section elsewhere - either by making use of cross-referencing or signposting, in line with para. 1.52 to 1.~~78~~58.

Interactions with other reporting frameworks

~~1.65~~1.49 A variety of different reporting frameworks exist ~~in government and~~ across the ~~wider~~UK 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.~~

~~1.66~~1.50 ~~There may be separate annual~~ Applying this guidance does not override existing climate-related reporting requirements~~, which mandate entity-level sustainability-related information~~ imposed by statute, regulation or other authority - either as part of an integrated report (e.g., within the performance report) or a separately published report.

~~1.67~~1.51Where 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 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

~~1.68~~1.52 Where existing disclosure requirements (in annual reports) align closely with the TCFD's recommended disclosures, reporting

26 Review of Financial Management in Government (December 2013~~: Review of Financial Management in Government:~~)

entities should apply judgement in deciding whether the TCFD requirements have already been met~~ – including cross-references where applicable~~.

~~1.69~~1.53 ~~Where~~ Prepares should cross-reference to 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~~.~~ For example, content in the Corporate Governance Report may support disclosures under the Governance pillar . Concise ~~annual~~ reports, which focus on the needs of the primary user and avoid unnecessary or duplicative information, improve overall effectiveness.

~~1.70~~1.54 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 interdependency [27].

Signposting to external reports and publications

~~1.71~~1.55 Where separate reporting channels [28] for sustainability ~~-related information and~~ data exist, these ~~are~~ often ~~used by the organisation to assess and manage~~support climate-related ~~issues. This~~assessment and management. Material information from these channels should be included in the annual report~~ where it is deemed material to the primary user –~~, unless ~~a respective~~ directed otherwise by a relevant authority ~~has directed otherwise~~ (e.g., DHSC's GAM).

~~1.72~~1.56 The performance report should ~~be considered~~act as the top layer of information for ~~primary~~ users. Some users may, however, want a greater level of detail.

~~1.73~~1.57 ~~Where external reports contain~~If relevant ~~information for the recommended~~ disclosures are covered in external reports, entities ~~are~~need not ~~required to~~ duplicate this information~~. Entities~~ but may ~~choose to~~instead signpost ~~to the content of external reports for the basis of compiling the~~ it for TCFD-aligned disclosures. This ~~may be useful~~approach is beneficial 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~~), provided all relevant material information ~~(e.g., bespoke internal processes, balances) for the related purpose.~~ is addressed.

~~1.74~~1.58 Signposting ~~to external reports enables~~allows users to ~~'drill down' to detailed complementary information that is related to a matter in a particular~~access supplementary information without overloading the report. However, it should be clear that such

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27 FRC~~, July 2018,~~ Guidance on the Strategic Report~~:~~ (July 2018): www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/annual-corporate-reporting/guidance-on-the-strategic-report/

~~28 This may include the GGCs, NHS Greener plans for example.~~

signposted content is separate from the main report 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~~ and excessive signposting ~~can~~may reduce ~~the~~ clarity ~~of the report.~~.

Reporting boundaries

Risk reporting and more qualitative requirements

~~1.75~~1.59 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.

~~1.76~~1.60 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.

~~1.77~~1.61 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

~~1.78~~1.62 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).~~default position is for the reporting boundary to be set at an entity level - aligning with the operational boundaries used in financial reporting.

1.63 ~~For~~However, where climate policies and targets are set and managed at a group level, the associated Metrics and Targets ~~recommended disclosures, the reporting boundary~~may (and often should) also be ~~set at~~ reported at a group level. Furthermore, quantitative information on the wider group may be appropriate, where there is a significant impact on the reporting entity ~~level~~ (e.g., for ~~central government in line with the Greening Government Commitments or 'GGCs'). However, where~~ future funding).

1.64 Where existing reporting frameworks consolidate information, ~~this~~ entity-level reporting may not be possible. For example, NHS England provide emissions estimates for the NHS in England~~– consequently~~.

1.65 Disaggregating information, where appropriate/possible, and signposting to ~~the~~ external reports (refer to para. 1.52 to 1.58~~report is more appropriate.~~) supports users to understand performance.

~~1.79~~1.66 A clear explanation of the reporting boundary should be provided for both quantitative and qualitative information, where this is not at an individual entity level.

Assurance

~~1.80~~1.67 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 standards[29], 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.

~~1.81~~1.68 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.

~~1.82~~1.69 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.

[29] 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~~TCFD's recommendation for 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~~1.1 ~~In-scope bodies should provide the recommended disclosures for Governance – refer to para. to . 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~~2.3 The management structures for making decisions and holding responsibility in the UK public sector are not always aligned with the private sector. While the Code of Good Practice [30] 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 Governance recommended disclosures should be applied – even if the terminology, composition and structures themselves are different.

Materiality

2.4 All in-scope bodies should provide the recommended disclosures for Governance – refer to para. 1.19 and Figure 1.3. The level of detail

30 UK Government's Corporate governance code for central government departments (April 2017)

provided remains at the discretion of preparers but should meet the needs of the primary users of annual reports.

Recommended disclosures

2.5 ~~A reporting body~~Information disclosed should ~~disclose information which allows a user of its~~allow annual ~~reports~~report users to understand how risks and opportunities relating to climate change are identified, considered, and managed within ~~its~~the organisation's governance structure.

2.6 This section outlines the TCFD recommended disclosures (in red boxes) for Governance~~, with the 'Supporting guidance from TCFD'~~. For each recommended disclosure, TCFD's Guidance for All Sectors provides supplementary information to support preparers – refer to Table B.2 (in Annex B~~red). The supporting TCFD guidance includes minor~~). Minor UK public sector interpretations and adaptations ~~(in italics) and is explained in .~~have been incorporated to support application.

2.7 Further 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~~. This draws from common findings and identified good practice from the ~~TCFD review on~~ private ~~companies~~sector conducted by the FCA [31] and Financial Reporting Council (FRC) [32].

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~~ Organisations should outline how the board oversees climate-related issues, ~~organisations should consider~~ including ~~a discussion of~~ the ~~following:~~

- processes and frequency ~~by which~~of updates provided to the board ~~and/~~or ~~board~~its committees (e.g., audit~~, risk,~~ or ~~other~~risk committees~~) are informed about~~). Organisations should describe how the board monitors progress against climate-related ~~issues;~~

2.8 goals and targets. They should also explain whether ~~the board and/or board committees consider~~ climate-related issues are considered when ~~reviewing and~~ guiding:

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

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

- 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~~ and
- overseeing major capital expenditures ~~investment or grant decisions, and~~ or restructures~~ *(e.g., Machinery of Government changes)*; and~~.

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

~~Public sector considerations and further guidance~~

~~2.8~~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.).

~~2.9 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.~~

Public sector considerations

2.10 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~~

~~2.11 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 .~~

Climate policies and strategies set across a group, industry or sector

~~2.12~~2.11 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. The annual report may signpost to external information – refer to para. 1.52 to 1.58. These same considerations for disclosure apply to Governance b) management's role (below).

Recommended disclosure for Governance (b) Management's role

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

~~Reporting entities~~ ~~2.13~~2.12 Organisations 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.

~~2.14~~2.13 For example, ~~reporting entities~~the organisation 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. Similarly, 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 and explained.

Public sector considerations

2.14 Management refers to 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.

2.15 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).

2.16 The level of detail and/or cross-referencing to elsewhere in the ~~accounts~~annual report 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.

2.17 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 3.

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~~undertakings, 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~~Primary users need to understand how significant climate-related ~~issues~~risks (and opportunities) may affect an organisation's operation, strategy, and financial planning over the short, medium, and long term.

3.3 A description of the strategy for achieving an entity's objectives provides insight into its development, performance, position and future outlook. This, alongside existing performance and narrative[33] reporting requirements on objectives ~~puts~~offers context for strategic information ~~into context~~, allowing stakeholders to make an assessment of its appropriateness.

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.

Overview

3.4 This chapter focuses on the qualitative and quantitative disclosures concerning an organisation's identified climate-related ~~issues~~risks, opportunities climate-related 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

[33] For simplicity, this guidance 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 u~~tili~~se 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.~~

3.7 Primary users of annual reports and accounts are interested how and why public money is spent. Reporting entities should consider the broader considerations section in Chapter 1 when considering what material climate-related information to report.

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.

Risk reporting

~~3.8~~3.9 Reporting entities should refer to Annex A~~This section~~ which draws from existing risk reporting for UK public sector annual reports – on principal, new and emerging risks. ~~Information~~Guidance on ~~the~~reporting on an 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.~~

~~3.10 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

~~3.11 A principal risk is a risk or combination of risks that can seriously affect the performance or reputation of an organisation.~~

~~A.3A.1 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.~~

~~A.4A.1 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 want an overview of those considered most important to the board.~~

~~3.12 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 reporting on recommended disclosures for Metrics and Targets a) and c); and Strategy a) to c).~~

~~Climate as a new or emerging risk~~

~~3.13 Emerging risks include risks whose impact and probability are difficult to assess and quantify at present, but which could affect the organisation in the future[34].~~

~~A.5A.1 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.~~

~~Risk reporting~~

~~3.14 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 risks[35].~~

~~A.6A.1 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.~~

~~34 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.~~

~~35 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.~~

~~Climate as a principal risk~~

~~3.15~~3.10 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.

3.11 ~~Where a climate-related~~Climate risk may be a standalone risk category or considered within other existing risk categories. Where climate is a significant component of another principal risk, climate information will be material to primary users – refer to para. 1.24 to 1.29. An illustrative example of a public sector body facing climate-related issues and the related reporting has been included in Annex A.

~~A.7~~A.1 ~~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.~~

~~3.16 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 .~~

~~3.17 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 performance of the organisation. This is covered in more detail in .~~

Climate as a significant component of another principal risk

~~3.18~~3.12 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. The related disclosure requirements are set out in Figure 3.1.

Climate as a new or emerging risk

~~3.19~~3.13 While climate risk is well established, climate-related risks on individual organisations will continue to emerge over time. 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.~~

Risk categories and ~~other considerations~~grouping

~~A.8~~A.1 ~~The recommends risks should be organised by taxonomies or categories of risk. Grouping risks in this way supports the development of an integrated and holistic view of risks. Annex 4 of the Orange Book provides example risk categories and groupings that may be useful for reporting entities to consider.~~

3.14 Organisations are responsible for their own risk management - including the categorising and grouping of risks. Approaches for categorising risks are explored in Annex A – refer to Table A.1 and Figure A.3.

~~3.20~~3.15 The impacts of climate change are broad and wide reaching. They may be cross cutting in nature, impacting other risks or areas. Reporting entities should provide relevant information to primary users to understand the impact of climate change on other risks.

~~3.21 Climate risk may be managed alongside existing risk management procedures (without setting bespoke climate-related procedures). The integration of climate risk should be described in Risk Management recommended disclosure c) – refer to .~~

Climate principal risk ~~designation for climate risk~~assessment and related reporting

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 of climate risk- with cross-referencing, where appropriate.

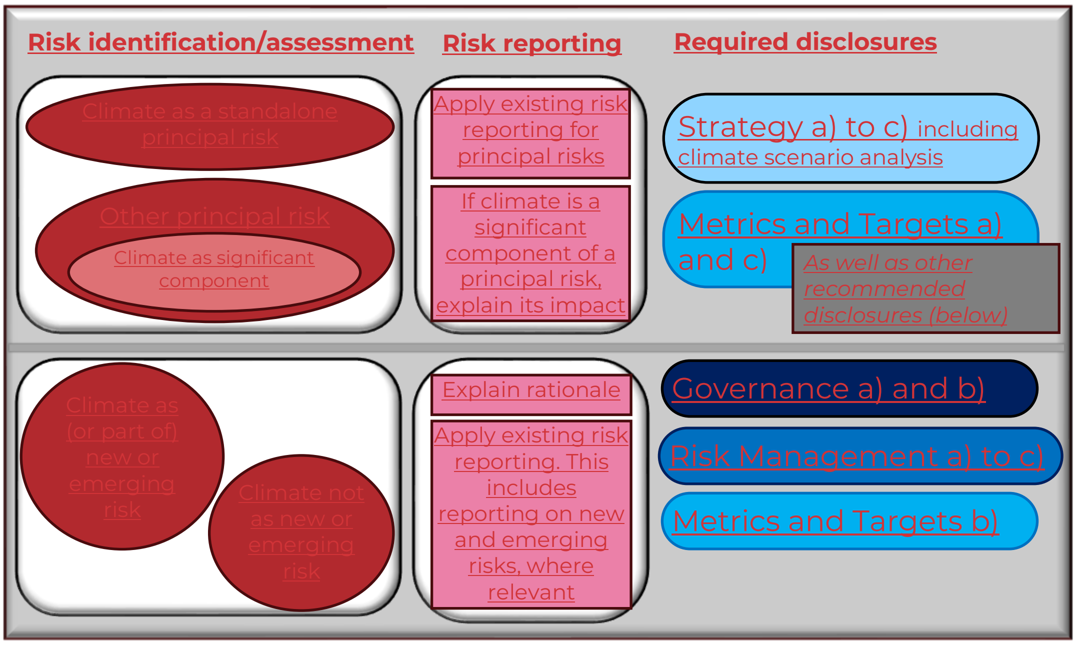
Climate not as a principal risk or significant component of a principal risk

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

Risk prioritisation

~~3.22~~3.16 Reporting entities should clearly set out the relative importance of principal, new or emerging 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).

Figure 3.1 Required disclosures where climate is a principal risk or significant component of a principal risk



Recommended disclosures

~~3.23~~ This section sets out the TCFD's recommended disclosures for Strategy (in red boxes)~~, with 'Supporting guidance from TCFD' (in red).~~

~~3.24~~3.17). UK public sector interpretations or adaptations have been made to ~~the~~ Strategy recommended disclosures c) ~~and the 'Supporting guidance from TCFD'~~as well as to TCFD's 'Guidance for All Sectors' for Strategy recommended disclosures (~~a) to~~b) and (c)~~.~~ ~~Updated references (denoted in italics) have been made)~~ – refer to Table B.2 (in Annex B~~recommended disclosures. The 'Public sector considerations and further guidance' sections provide additional information to annual report preparers.~~).

Recommended disclosure for Strategy (a)

Risks, opportunities, and time horizons

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

~~3.25~~ Reporting entities that have identified climate as a principal risk (or part of a principal risk), must outline potential climate-related risks and opportunities for each horizon that could materially affect finances and their strategy, as well as the processes used to assess relevant risks and opportunities. Reporting by sector or geography may also be included, with reference to Tables A1.1 and A1.2 (in Annex A~~Supporting guidance from TCFD~~

~~Organisations should provide the following information:~~

3.18 ~~a description of what they consider to be the relevant~~) for further detail.

- ~~—~~Reporting entities should describe their short-, medium-, and long-term time horizons~~, taking into consideration the~~ . In identifying these time horizons, reporting entities should consider the useful life of ~~the organisation's~~ assets ~~or~~and infrastructure ~~and the fact that climate-related issues often manifest themselves over the medium and~~ , as well as the 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.~~

~~3.26~~3.19 ~~Organisations should consider providing a description of their~~ nature of climate 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*~~ .

Public sector ~~considerations and further guidance~~application

~~3.27 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~~

~~3.28 This chapter covers the assessment, monitoring, management and reporting of climate-related risks and opportunities – collectively referred to as 'climate-related issues'.~~

~~3.29~~3.20 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. ~~onwards~~3.8 to 3.16.

Climate-related opportunities

~~3.30~~3.21 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.

~~3.31~~3.22 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

~~3.32 In addition to considering the severity and likelihood of climate-related risks, opportunities, and impacts, organisations should also consider their timing.~~

~~3.33~~3.23 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. Organisations tailor business and strategic planning time horizons based on entity-specific factors[36].

~~3.34 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.~~

3.24 Reporting entities should explain the time horizons adopted in the context of legislative requirements and public sector outcomes and targets (e.g., Net Zero) set by their relevant authority.

Longer-term time horizons for climate

~~3.35~~3.25 Physical risks from long-term climate changes (e.g., precipitation, temperature, and weather patterns) often evolve over extended periods. Government and public sector operations also span long time horizons, so reporting should account for how these risks may intensify. Climate scenarios analysed for Strategy recommended disclosure c) supports longer-term horizon scanning for climate-related risks - refer to para. 3.52 to 3.56~~.~~.

3.26 Where reporting entities are analysing much longer-term time horizons - which stretch well beyond their business and strategic planning horizons - they may choose to differentiate between longer-term time horizons. For example, using long-term and very-long-term horizons may provide for better analysis (and management) of longer-term climate-related risks and opportunities within existing risk management and strategic planning frameworks (which typically have shorter time horizons in comparison).

3.27 While longer time horizons apply to gradual climate change, shorter-term horizons will likely be more appropriate for extreme weather events or transition risks. Transition risks are the climate risks associated with transitioning to a lower-carbon (mitigation), and more climate-resilient (adaptation), economy.

[36] Public sector bodies that are responsible for delivering a major longer-term project (e.g., design of long-life infrastructure), but have a limited operating, funding lifetime, and associated business planning time horizon – should consider the time horizons for the associated project.

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~~Organisations that have identified climate as a principal risk (or significant component of a principal risk) must explain how identified climate-related issues have impaffected their ~~operations+~~ ~~businesses~~operations/core undertakings, strategy, and financial planning~~.~~

~~3.36~~3.28 ~~Organisations should consider~~, covering areas such as products, services, supply chains, research and development (R&D), investments, operations, acquisitions, and access to capital. They should describe how climate risks and opportunities influence financial planning, including timeframes and prioritisation, and outline the impact on ~~their operations+ businesses, strategy, and financial planning in the following areas:~~financial performance and position.

- ~~Products and services~~
- ~~Supply chain and/or~~ Disclosures should reflect interdependencies for long-term value ~~chain~~
- ~~Adaptation and mitigation activities~~
- ~~Investment *and grants+* in research and development~~
- ~~Operations (including types of operations~~creation and ~~location of facilities)~~
- ~~Acquisitions or divestments~~
- ~~Access to capital~~

, where relevant, include transition plans to a low-carbon economy. Organisations should ~~describe how climate-related issues serve as an input to their financial planning process, the time period(s) used, and~~also explain 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~~for legacy assets, ~~for example, strategies to lower carbon-, energy-, and/or water-intensive operations.~~
- and address how GHG emissions~~, energy,~~ and ~~water and other~~ physical ~~risk exposures, if applicable,~~ risks 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.~~

~~3.37~~3.29 ~~The organisation's flexibility in positioning/repositioning.~~ Flexibility in reallocating capital to ~~address~~manage emerging climate~~-related~~ risks ~~and opportunities~~should also be discussed.

~~Adaptations and interpretations~~

~~3.38 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~~

~~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,~~ Materiality filter for climate-related information

~~3.39~~3.30 Organisations with climate-related opportunities should describe impacts, while applying an appropriate materiality filter, considering likelihood, impact, and ~~effect.~~ exposure. Materiality is specific to reporting entity and is based on the nature and/or magnitude of the items to which the information relates.

~~3.40 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.~~

~~3.41 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

~~3.42~~3.31 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.

~~3.43~~3.32 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~~this information must be disclosed in the annual report, applying appropriate cross-referencing.

Connectivity with existing performance reporting

~~3.44~~3.33 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.

~~3.45 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 the section.~~

~~3.46~~3.34 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

~~3.47~~3.35 ~~Quantified climate scenario analysis~~Quantifying risks enables better financial planning, improves the organisation's' understanding, and supports decision makers – for example, with policy development and business cases. Nonetheless, there is considerable uncertainty around what the future will look like in terms of future global GHG emissions; the resulting level of global warming; and changes to UK weather and climate.

~~3.48~~3.36 Organisations are encouraged to disclose quantified financial information, where practicable and useful, 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)~~[37] – noting

~~[37] 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.~~

that longer term time horizons are likely to experience higher levels of uncertainty.

~~3.49~~3.37 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.

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[*].~~scenario.

~~Supporting guidance from TCFD~~

Organisations should ~~describe how resilient~~assess the resilience of their strategies ~~are~~ to climate-related risks and opportunities, taking into consideration ~~a~~ relevant scenarios for increased physical risks and transition to a low-carbon economy ~~consistent~~(aligned 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~~). They should ~~consider discussing:~~

- discuss areas where ~~they believe~~ their strategies may be ~~affected by climate-related~~impacted, potential adaptations to address these risks and opportunities~~;~~
- ~~how their strategies might change to address such potential risks and opportunities;~~

~~3.50~~3.38 , and the ~~potential impact of climate-related issues~~effects on financial performance ~~(e.g., income, expenditure[1] revenues, costs) and financial~~ and position ~~(e.g., assets, liabilities); and~~.

- Additionally, organisations should outline the climate-related scenarios and ~~associated~~ time ~~horizon(s)~~horizons considered~~.~~

~~3.51~~3.39 ~~Refer to Section D in the Task Force's report for information~~ in their analyses. For further details on applying scenarios to forward-looking analysis, refer to Section D in the Task Force's report.

~~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~~discuss the implications of ~~different~~various policy assumptions, ~~macro-economic~~macroeconomic 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~~ They should provide information on ~~the following factors to allow investors *primary users* and others to understand how conclusions were drawn from scenario analysis:~~

~~3.52~~3.40 critical input parameters, assumptions, and analytical choices ~~for the climate-related scenarios used, particularly as they relate to key areas such as~~ related to policy ~~assumptions~~, energy deployment ~~pathways~~, technology pathways, and ~~related~~ timing ~~assumptions~~for the scenarios used.

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

~~Adaptations and interpretations~~

~~3.53 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~~

~~3.54 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) recommendation[38]. This change is driven by a shift in focus from transitional risks to physical risks. The text includes the tracked changes with a + symbol to identify the modified word.~~

~~3.55 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~~

~~3.56 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 a more 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.~~

~~3.57 Overall size thresholds in terms of defining which bodies in central government are required to follow the TCFD application~~

~~[38] https://www.theccc.org.uk/publication/proposed-methodology-for-the-ccra4-advice/~~

~~guidance generally were introduced to align with the UK private sector guidance on climate-related financial disclosure – refer to para. .~~

~~Public sector considerations and further guidance~~

Climate as a principal risk

~~3.58~~3.41 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.

Climate scenario analysis

~~3.59~~3.42 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 operations+, strategies, and financial performance over time.

~~3.60 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.~~

~~3.61 For Strategy c), para. 1.3.2 of 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.*~~

3.43 To enable comparability and simplify implementation of TCFD-aligned disclosure across government and the public sector, this guidance identifies common reference periods and pathways for climate scenario analysis.

3.44 Reporting entities should adopt these reference periods and pathways in their analysis, unless there is a suitably good reason to deviate, – where they may apply the comply or explain basis for disclosure.

Time horizons and reference periods

~~3.62~~3.45 In TCFD's Guidance on Scenario Analysis, 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.

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 harmoni~~z~~sed or anchored with those of national and international climate policy communities (e.g., 2030 and 2050). ~~Harmonizing company~~Harmonising 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.*

~~3.63 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.~~

~~3.64 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~~

3.46 ~~Using common reference periods for~~ Reference periods need to consider jurisdictional commitments and international agreements, as well as capital planning, investment horizons and asset lifecycles. Organisations must balance their need for decision useful information, with the need for comparable disclosures for primary users which underpins wider cross-government decision making.

Climate Scenario Analysis
Reference periods

Reporting entities conducting climate scenario analysis must use at least three different reference periods[39], including:

- near term – mandatory for all reporting entities to select one or two reference periods/points.
- mid-century – mandatory for all reporting entities.
- end of century – mandatory for reporting entities that:

[39] Preparers may find it useful to understand their level of exposure to future climate hazards relative to that of the current climate. A commonly used reference period for assessing present climate conditions is 1981 – 2010 but this may vary based on the underlying data sets.

1. own, manage, regulate or are responsible for significant long-life assets or infrastructure which are significantly affected by climate change[40]; or,

2. deliver essential[41] 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[42].

3.47 Climate risks will crystalise at different points in time. In the near term, variability dominates the analysis. Within a 5-year time horizon, uncertainty around climate response to future emissions is significant. Over a longer horizon—10 to 15 years—the impact of emissions on physical climate risks becomes clearer. For transition risks, which stem from policy and economic shifts, differences between scenarios may be noticeable much sooner.

Reference period ranges

3.48 Using ranges for reference periods allows the analysis to capture a group of individual risks. Drawing data from multiple years enables 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 consider the range of variability in changed climate.

~~3.65~~3.49 Reporting entities have the flexibility to set their own ~~near term~~range around reference periods~~.~~ to support an analysis of the risks they face. Typically, up to 20 years[43] would be considered appropriate.

~~3.66 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.~~

[40] The government and UK public sector own, manage and regulate significant assets and infrastructure with lengthy useful economic lives which are likely to be impacted by climate change and the transition to net zero.

[41] Essential public goods 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.

[42] The Task Force identified industries and sectors as being likely to be significantly impacted by climate– please refer to para. 1.30 to 1.32.

[43] While this guidance does not set specific ranges for reference periods, a 20–30-year window centred around the period of interest is often used in the analysis of climate data (e.g., 2050s may aggregate data between 2041 – 2060).

~~3.67 Reporting entities that are conducting climate scenario analysis must use at least three different reference periods[44], 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[45]; or,~~
2. ~~deliver essential[46] 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.~~

~~3.68 Natural variations in climate happen year to year and due to natural cycles, such as El Nino. In order to distinguish between these and longer-term changes and trends in climate, reference periods should cover multiple years to ensure they are representative of the typical climate for that period[47].~~

Near term analysis

~~3.69~~3.50 Reporting entities should set their own near term reference periods (or points) for climate scenario analysis based on entity-specific factors~~.~~, including financial planning or the specific transition risks they face (e.g., from policy). These will likely overlap with existing business and strategic planning time horizons~~ – and other TCFD recommended disclosures~~.

~~3.70~~3.51 Organisations that report under other climate risk frameworks may choose to align their near-term analysis with common reference periods. ~~The CCC's~~For example, the 4th Climate Change Risk Assessment (CCRA) methodology ~~identifies~~proposes 2030s ~~as~~ a near-term reference period, to ~~report against.~~represent the climate for which the next round of national adaptation programmes (NAPs) will need to fully prepare for and there are established emissions reduction targets by 2030 under the Paris Agreement. Selecting 2030 as an intermediate

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~~44 Preparers may find it useful to understand their level of exposure to future climate hazards relative to that of the current climate. A commonly used reference period for assessing present climate conditions is 1981 – 2010 but this may vary based on the underlying data sets.~~

~~45 The government and UK public sector own, manage and regulate significant assets and infrastructure with lengthy useful economic lives which are likely to be impacted by climate change and the transition to net zero.~~

~~46 Essential public goods 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.~~

~~47 While this guidance does not set specific ranges for reference periods, a 20–30 year window centred around the period of interest is often used in the analysis of climate data (e.g., 2050s may aggregate data between 2041 – 2060).~~

point aligns with commitments assumed by the UK[48], the EU[49] and pledges in previous Conferences of the Parties[50].

Common reference period – mid-century ~~(2050s)~~

3.52 This application guidance recognises the mid-century period (i.e., 2050s) as a common reference period for climate scenario analysis. This is grounded in national and international climate policy communities (i.e., the Paris Agreement[51], the UN's Intergovernmental Panel on Climate Change or 'IPCC'[52]), the UK's national statutory net zero target of 2050 (i.e., Climate Change Act 2008~~.~~).

~~3.71~~3.53 The Climate Change Committee (CCC)[53] also identifies the 2050s in current and proposed CCRA methodologies. These are used in climate risk assessment frameworks across the public and private sector (e.g., CCRA, Adaptation Reporting Power).

3.54 Most transition risks are expected to manifest themselves on or before 2050 - with government policy enacted to meet statutory net zero commitments. Transition risks that are likely to materialise close to but before 2050 should be considered within the mid-century reference period (for example, reporting entities with net zero by 2045 targets).

Common reference period – end of the century ~~(2080-2100)~~

~~3.72~~ Most significant physical climate risks are expected to materialise towards the end of the century~~.~~

~~3.73 Reporting entities responsible for significant long-life assets~~ (2080-2100). Organisations that are likely to be significantly impacted by the physical and ~~infrastructure – or delivering essential public goods and services which are likely to be affected - must also analyse and report on the impact of~~ adaptation risks associated with climate change must consider the impact on their organisation and its strategy by conducting scenario analysis for the end of the century reference period (2080-2100)[54] ~~reference point.~~

3.55 ~~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~~a suitable scenario of future emissions and climate change.

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[48] For example: gov.uk/government/news/pm-recommits-uk-to-net-zero-by-2050-and-pledges-a-fairer-path-to-achieving-target-to-ease-the-financial-burden-on-british-families

[49] www.consilium.europa.eu/en/policies/fit-for-55/#:~:text=Why%20%27Fit%20for%2055%27%3F,line%20with%20the%202030%20goal

[50] unfccc.int/news/cop28-agreement-signals-beginning-of-the-end-of-the-fossil-fuel-era

[51] www.un.org/en/climatechange/paris-agreement

[52] www.ipcc.ch/

[53] www.theccc.org.uk/

[54] The end of the century reference period (2080 to 2100) has a broader time period to allow for the grouping and aggregation of longer-term data sets over these more distant time horizons.

Forecast uncertainty does however increase with more distant time horizons.~~Pathways~~

3.56 These uncertainties are discussed later in this section.

Pathways

3.57 ~~explores climate scenario pathways.~~The IPCC defines a scenario as *a plausible description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces (e.g., rate of technological change, prices) and relationships. Note that scenarios are neither predictions nor forecasts, but are used to provide a view of the implications of developments and actions.*

3.58 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 enable future developments.

3.59 A climate pathway is a projected trajectory of GHG emissions and temperature changes over time, based on specific assumptions about future policies, technologies, and behaviours. Pathways help illustrate potential outcomes for global warming, typically aligned with targets like limiting temperature rise to 1.5°C or 2°C.

Incorporating transition risks into scenario analysis

~~3.74~~ Transition risks, opportunities and impacts are predominantly influenced by government policy and regulation, which is set by different bodies across central government and the wider public sector. 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. to) - or explain where different scenarios have been used and why (e.g., alternative physical, socio-economic or transition pathways).~~

~~3.75 As a baseline~~incorporate 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~~

~~3.76 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)?*~~

~~3.77~~3.60 ~~There are many sources of uncertainty for~~ into climate scenario analysis ~~including future global GHG emission and the resulting global warming levels, as well as the specific changes to UK weather and climate at a~~ , with particular attention paid to the mid-century reference period, given ~~temperature. This is further~~

~~exacerbated by uncertainty around global warming tipping points[55]~~the government's 2050 Net Zero target.

~~3.78~~1.1 ~~The UK Met Office models climate hazards reflecting both the median and upper extremes of projected UK climate distributions at specific global warming levels. This method ensures a comprehensive range of potential climate outcomes are considered. For hazards like sea-level rise, which do not correlate directly with global mean temperature, a tailored approach is used[56].~~

~~3.79~~3.61 ~~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 CCC[57] recommending that the UK Government prepare for 2°C of global warming and evaluate the risks associated with 4°C~~. The Paris Agreement's overarching goal is to hold "*the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognising that this would significantly reduce the risks and impacts of climate change*". The government is signed up to the Paris Agreement and UK climate policy aims to achieve these global temperatures, reflecting this approach.

~~3.80~~1.1 ~~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). Further climate changes are inevitable. While there is more certainty over mid-century global warming levels, the second half of the century has a wider range of possible outcomes – dependent on both global emissions trajectories and uncertainty in climate response.~~

~~3.81 When conducting climate scenario analysis, reporting entities must use the temperature pathways set out in the CCC's CCRA[58] methodology. The proposed CCRA4 methodology[59] has been included in Table A.4 in .~~

~~3.82 Reporting entities are encouraged to use the most recent CCRA methodology published on the . 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~~

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[55] ~~Critical thresholds in a system that, when exceeded, can lead to a significant change in the state of the system, often with an understanding that the change is irreversible.~~

[56] ~~Where hazard data directly in relation to global warming levels is not yet available, analysis should use aligned Representative Concentration Pathways (RCP) emissions pathways.~~

[57] ~~https://www.theccc.org.uk/~~

[58] ~~The CCC will deliver their fourth independent assessment in 2026. Organisations may use.~~

[59] ~~CCRA4 methodology includes the plausible future pathways for global GHG emissions, considering the global warming levels consistent with current policy futures, and includes systemic sampling of the range of UK climate changes for a given global warming level.~~

~~warming pathways used in the analysis and/or signpost to the methodology applied.~~

~~3.83 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.~~

~~Other data inputs~~

~~3.84 Reporting entities will require variety of data inputs for climate scenario analysis (e.g., for models). Where possible, official sources should be used – for example, Office for National Statistics (ONS) data - to drive consistency and comparability.~~

~~Alternative pathways~~

~~Physical and socio-economic pathways~~

~~3.85 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.~~

~~3.86 The IPCC defines climate scenarios in terms of pathways for emissions and socioeconomic factors - with either RCPs or Shared Socioeconomic Pathways (SSPs). SSPs set general global socio-economic changes to mitigation and adaptation – rather than UK specific[60].~~

~~3.87~~1.1 ~~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.~~

~~3.88 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~~

~~60 While UK SSPs have been developed from global SSPs, these may not consider updates to government policy. Consequently, ONS data and projections may be more useful for climate scenario analysis.~~

~~government climate-related frameworks (e.g., Adaptation Reporting Power).~~

~~3.89 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.~~

~~3.90~~3.62 When government policy, legislation and regulation is enacted, reporting entities must consider their impact both on the organisation and its strategy using scenario analysis.

Where reporting entities have committed (or been committed by an external authority) to a more ambitious ~~Transition pathways~~

3.63 ~~Nations are setting~~ net ~~-~~zero ~~targets and strategies as part of their response~~ target - compared to the ~~issue of global warming. The~~UK's government's statutory net zero targets - the implications should be considered as part of climate scenario analysis.

3.64 DESNZ has published Net Zero Strategy-aligned carbon values to 2050 which may be useful for modelling purposes. Where reporting entities have exposure to carbon-pricing related transition risk, these values may be useful for quantitative analysis. Please refer to para. 3.102 for further details.

3.65 Climate policy changes can have both direct (e.g., new regulatory requirements) and indirect (e.g., increased costs from additional reporting, changing energy prices) effects.

Global Warming Levels

3.66 ~~to net zero poses risks~~ Global Warming Levels (GWLs) refer to specific temperature thresholds of warming at a global level (e.g., 1.5°C or 2°C above pre-industrial levels). GWLs represent targets that pathways aim to meet (or avoid) by controlling GHG emissions. Each pathway illustrates a different trajectory of emissions reductions, energy transitions, and ~~demands~~societal changes that correspond to various GWLs. Pathways reaching lower GWLs (i.e., 1.5°C) generally require faster and more significant cuts in emissions, whereas higher GWL pathways (i.e., 3°C or more) represent scenarios with less aggressive climate actions or higher emissions trajectories.

3.67 GWLs 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)*?

3.68 GWLs are affected by international action (not just action at a UK level). The response globally will have a much more significant impact on carbon concentrations (and warming levels).

3.69 The use of warming levels holds substantial policy significance. The CCC's 3rd CCRA[61] recommended that the government prepare for 2°C of global warming and evaluate the physical risks associated with 4°C. The government's response, via the NAP, considered these GWLs.

3.70 The proposed 4th CCRA methodology[62] has been included in Table A.2 (in Annex A). Government is yet to prepare their response (via the 4th NAP).

Climate Scenario Analysis Pathways

When conducting climate scenario analysis, the default approach for reporting entities is to use the GWLs set out in the CCC's CCRA methodology. For CCRA3, 2°C and 4°C end of the century temperature rises are applied[63]. Furthermore, reporting entities must explore scenarios which are consistent with government's Net Zero policies and commitments.

Alternative or additional climate scenarios may be explored. Where a reporting entity has used different scenario pathways (e.g., transition pathways) they must explain why.

3.71 Aligning climate scenarios with the GWLs set out in CCRAs does not signal a change in government position on Net Zero, nor is this intended as an assessment of the UK's transition to net zero. Even if the UK achieves GHG emissions compatible with the 1.5°C target, this represents a small portion of annual global emissions. The possibility remains that other countries may not meet their targets. There is also uncertainty in climate sensitivity, meaning that global warming could still exceed 1.5°C despite the UK's efforts.

3.72 Using GWLs which are CCRA aligned allows public sector bodies to leverage from existing climate risk assessments and reporting. Analysing scenarios which align with government's Net Zero policies or commitment meets TCFD Strategy recommended disclosure c) - to consider 'different climate-related scenarios, including a 2°C or lower scenario'.

3.73 Climate pathways drive exploration of the different risks that public sector bodies face (i.e., on service delivery, as insurer of last resort). Reporting entities are encouraged to use the most recent CCRA methodology published on the CCC website. Reporting entities must

[61] www.ukclimaterisk.org/publications/type/technical-reports/

[62] CCRA4 methodology includes the plausible future pathways for global GHG emissions, considering the global warming levels consistent with current policy futures, and includes systemic sampling of the range of UK climate changes for a given global warming level.

[63] Defra's Adaptation Reporting Power also applies CCRA methodology.

state the GWLs used in the analysis and/or signpost to the methodology applied.

Climate models and uncertainty over global warming levels

3.74 Further climate changes are inevitable. While there is more certainty over mid-century global warming levels, the second half of the century has a wider range of possible outcomes – dependent on both global emissions trajectories and uncertainty in climate response.

3.75 Forecast uncertainty increases over time. Small differences or inaccuracies in the initial conditions of a forecast can grow larger as the forecast progresses - due to the sensitivity of complex systems (e.g., weather patterns). In addition, numerical models, which simplify the real world through necessary approximations, introduce further uncertainty. As forecasts project further into the future, these small initial inaccuracies and model simplifications accumulate, making the forecast less precise and increasing the range of possible outcomes.

3.76 Natural variations in climate happen year to year and due to natural cycles, such as El Nino. ~~investments~~Climate trends interact with natural variability to produce extremes.

3.77 Alongside uncertainty in future global GHG emission and the resulting global warming levels, there is also uncertainty over the specific changes to UK weather.

3.78 Large-scale climate tipping points could be triggered as global temperatures rise, potentially causing substantial and lasting shifts in the climate and extreme weather patterns. Currently, there is less confidence in the data around tipping points compared to other climate projections, and the probability of reaching these tipping points within by 2100 is considered low. However, this likelihood increases with the degree of global warming. Plausible worst-case scenarios include tipping points.

3.79 The UK Meteorological Office (Met Office) aims to capture a broad range of uncertainty across its modelling tools, allowing users to explore both median and higher percentile (less likely but more impactful) climate change outcomes. By modelling climate hazards that reflect both median and extreme projections at specific global warming levels, the Met Office ensures comprehensive coverage of potential UK climate outcomes.

UK Climate Projections

3.80 The Met Office provides UK Climate Projections. The most recent UKCP18[64] which offers the most up-to date high resolution locality data to assess how the climate of the UK may change. UKCP18 uses a mix of both GWLs and Representative Concentration Pathways (RCP) emissions pathways.

[64] Met Office's UKCP18 Science Overview Report: www.metoffice.gov.uk/research/approach/collaboration/ukcp/science/science-reports

Met Office findings: www.metoffice.gov.uk/research/approach/collaboration/ukcp/summaries/headline-findings

3.81 UKCP18 used approaches that were subsequently used in IPCC 6th assessment, and combined them with additional data from the wider research community - which was the most up to date at the time UKCP18 was launched. UKCP18 may be updated further in the future. Using UKCP18 data set may provide access to more open data sets; however, there are also certain limitations[65].

3.82 For certain hazards, which do not increase at the same rate as global mean temperature, the Met Office uses a tailored approach to climate scenarios modelling[66]. 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. Whilst an increase in sea level is expected throughout the century and beyond, the rates will be affected by the amount of GHG emissions. Consequently, sea level rise is very time dependent as well as temperature dependent.

3.83 As an alternative to the 2°C and 4°, UKCP18 products and related tools may be applied in the context of scenario analysis, including detailing the alignment of the preferred warming scenarios with RCP scenarios for clarity. Please refer to Table 5.A, 5.B and 5.C (in Annex A) for the model breakdown for CCRA4.

Other inputs and data sets

3.84 Reporting entities will require variety of data inputs for climate scenario analysis (i.e., for models). Official sources should be used where available – for example, Office for National Statistics (ONS) data sets – to drive consistency and comparability.

3.85 The ONS provides critical demographic, economic, and societal data for the UK, which is used to consider UK socioeconomic development for national purposes, including by the CCC. Projections like population growth, GDP forecasts, urbanisation, and energy demand inform future UK socioeconomic trends. Shared Socioeconomic Pathways are explored later - refer to para. 3.91 to 3.93.

Alternative pathways

3.86 This guidance sets GWLs as the default approach for climate scenario analysis. However, where reporting entities face significant climate risks which are better explored via alternative pathways, they may use these approaches. Similarly, where an organisation operates in an industry or sector which uses specific scenario pathways or definitions, then these may be applied. Reporting entities should select scenarios that sample a suitably wide range of uncertainty.

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65 Met Office sets out limitations: www.metoffice.gov.uk/research/approach/collaboration/ukcp/data/caveats

66 Where hazard data directly in relation to global warming levels is not yet available, analysis should use aligned Representative Concentration Pathways (RCP) emissions pathways.

3.87 This section provides an overview of some alternative pathway approaches. Where additional or alternative scenario pathways have been applied, they should be stated and explained. Scenarios that are more useful for users are generally those that consider probability of occurrence and have large implications for strategy formulation.

3.88 It is essential to incorporate both smooth climate change trends and rapidly varying natural variability in chosen climate pathways, as together they shape future extreme weather and climate. More qualitative scenario approaches are suited to exploring very uncertain, high impact events at certain levels of global warming – refer to para. 3.103 to 3.105.

3.89 The Climate Financial Risk Forum (CFRF) has published guidance on selecting climate scenarios to explore– refer to Section 3 of Mobilising Adaption Finance to Build Resilience. While this guide was produced predominantly for use by financial institutions, this and other guidance may be useful for UK public sector bodies to consider. Further details are included in Annex A.

Shared Socioeconomic Pathways

3.90 The IPCC defines climate scenarios in terms of pathways for emissions and socioeconomic factors - with either RCPs or Shared Socioeconomic Pathways (SSPs). SSPs set general global socio-economic changes to mitigation and adaptation – rather than UK specific[67].

3.91 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.

3.92 ~~all sectors.~~ IPCC SSP-RCP may be used to provide decision-useful insights for government bodies. Providing an analysis on socio-economic factors may be insightful for policy setting entities and those with regulatory functions.

3.93 The SSPs have been downscaled and nationalised for the UK under the UK Climate Resilience Programme – relevant data is accessible via the Met Office Climate Data Portal.

Combining data sets

3.94 Specific use cases (e.g., different geographical, industry-specific data) may drive the choice of pathways or data sources. This should be explained in the annual report.

3.95 UK-specific projections from the ONS, for example on population, can inform how different pathways account for urban expansion, housing needs, or healthcare pressures under various climate futures. Similarly, economic data can influence projections of how resilient or

[67] While UK-SSPs have been developed from global SSPs, these may not consider updates to government policy. Consequently, ONS data and projections may be more useful for climate scenario analysis.

vulnerable the UK economy might be to climate impacts under different SSP scenarios. Scenario modelling should be built on robust, up-to-date data, drawing from global climate models and national risk assessments.

Transition pathways

~~3.91~~3.96 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. Nations are setting net-zero targets and strategies as part of their climate change response. The transition to net zero poses risks and demands significant investments across all sectors.

~~3.92 Transition risks are predominantly driven by government policy and regulation, which is set by different bodies across central government and the wider public sector. Reporting entities may be impacted by these policies and regulations.~~

~~3.93~~3.97 Where entities have ~~a~~potentially material exposure to transition risk, they should consider whether exploring low and high transition risk scenarios is ~~more~~ useful for users (i.e., decision makers, primary users).~~ Where transition scenarios are explored, an appropriate explanation must be provided alongside these disclosures.~~

~~3.94 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.~~

~~3.95~~3.98 ~~Furthermore,~~ Transition scenarios will likely be particularly relevant for policy-setting and regulatory bodies ~~may choose to include transition scenarios, exploring~~wanting to explore the impact of different net zero transition pathways on their strategy, and input from policy and regulatory teams may be necessary. Further guidance on transition plans is included in Annex A~~.~~.

~~3.96~~3.99 Where different transition scenarios ~~have been~~are explored, ~~reporting entities~~an appropriate explanation must ~~provide~~be provided - including appropriate caveats on the scenario assumptions ~~–~~ to avoid the disclosures being taken as government net zero policy (or pre-empting government policy).

~~Shadow carbon pricing~~

~~3.97 Government has published guidance on estimating future carbon values: and the Supplementary Green Book Guidance on . Organisations may use these figures in their climate scenario analysis.~~

3.100 Late transition scenarios assume Net Zero targets are met by 2050, driven by accelerated policy and technology shifts from 2040 to 2050. Given current progress on climate mitigation, late transition scenarios may be relevant for consideration. These scenarios foresee sharp changes in energy sources and a carbon price shock, which could create significant differences in transition risks between 2045 and 2050. In such scenarios, choices in near term reference periods will make a significant difference to scenario analysis.

3.101 There are various different international data sets which can be used for climate scenario analysis depending on the use case. The Network for Greening the Financial System (NGFS) data sets are commonly used by financial institutions, and International Energy Agency (IEA) data is used in energy-related analysis, with alternative sectoral datasets for organisations with international reach.

Future Carbon Values

~~3.98~~3.102 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[68]
- High Sensitivity – Low fossil fuel prices and high economic growth

~~3.99 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.~~

~~3.100~~3.103 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.~~

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

3.105 Carbon prices are key drivers of technology adoption and climate policy implementation across world regions. From an analytical perspective, carbon prices in integrated assessment models also influence proposed technological changes, economic indicators, and demand trends, supporting scenario analysis and climate stress testing.

3.106 Some institutions with international exposure may need to use non-UK carbon price figures due to varying transition policies in other countries. Scenario analysis may rely on carbon price figures provided by the external scenario source.

3.107 Where reporting entities use data from a specific provider for non-UK regions, using these carbon prices for UK analysis as well may support comparability. Using carbon prices from different sources or models could result in non-comparable outcomes. The choice on which carbon price source to use for each respective analysis will depend on the context (e.g., locational mix in a portfolio).

3.108 The disclosure should explain that these are assumptions, and not in themselves government policy. Reporting entities may use

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[68] Follows government policies and proposals for decarbonising all sectors of the economy to meet Net Zero by 2050, assuming a level of decarbonisation is achieved through other policies. While not specific to the public sector, this may be used as an acceptable proxy (until specific UK public sector guidance becomes available)

alternative sources for carbon values, where these are identified and explained. Further information on Internal Carbon Values is included in Chapter 5.

Frequency of climate scenario analysis

3.109 Scenario analysis should be updated at least every ~~3 to 5 years[69], or more frequently if there are any~~5 years[70]. More frequent updates may be needed where significant changes occur that affect the underlying assumptions.

Updates and factors impacting frequency

3.110 Reporting entities may find it useful to re-assess physical and transition risks on different timelines. Physical risks can generally be reviewed every 5 years[71], unless there are major changes to operations or assets under control. Transition risks may require more frequent updates, potentially every 1-2 years.

~~3.101~~3.111 Given this, while 5 years may be appropriate for some institutions or for extensive scenario analysis exercises, it is important that reporting entities monitor new developments ~~or~~ (e.g., transition plans in other jurisdictions, impact of geopolitical events ~~that mean the assumptions used are no longer suitable (e.g., Machinery of Government changes~~on mitigation policies).

3.112 For some institutions, particularly with more (financial) exposure to climate risks and/or if they face risks which may be more affected by geopolitical developments or changes in the global economy, more frequent stress testing, such as on an annual basis, should be considered.

3.113 Assessing climate risks through scenario analysis is a developing field. Reporting entities should monitor new scenarios that become available from providers, in case they provide new and useful information or suggest new approaches.

3.114 Judgement should be applied in deciding the relative significance of developments and events which require assumptions underpinning their existing scenario analysis to be revisited. For example, advances in appropriate technology, the susceptibility of the mitigating activities to obsolescence and other risks arising may constitute significant developments or events triggering the need to revise the scenario analysis, but how and when to determine this is not made clear in the guidance.

~~69 Selected based on CCRA cycles, typical timing for political and fiscal events (e.g., elections, spending reviews) and considering the regularity of updates to relevant data sets in the past.~~

70 Selected based on CCRA cycles, typical timing for political and fiscal events (e.g., elections, spending reviews) and considering the regularity of updates to relevant data sets in the past.

71 The frequency of updates to climate models and other risk assessment processes focused on physical risks (e.g., CCRA, NAP) means significant changes are unlikely to occur frequently.

Public sector bodies must consider the appropriateness of the use of resources needed to undertake climate scenario analysis (considering the principles in Managing Public Money) given scenario analysis can often be a resource and time intensive process – refer to para. 1.41~~Quantitative vs qualitative analysis~~

3.115 ~~Quantitative climate scenario analysis drives~~.

Quantification

3.116 Climate scenario analysis is an iterative process, whereby reporting entities should strive to improve the level of analysis on an ongoing basis. Starting with a qualitative narrative-based approach, before moving to a more quantitative analysis may be appropriate, as the organisation's understanding, the models, data availability and granularity all improve.

3.117 Quantitative climate scenario analysis supports organisations to properly analyse and understand the climate issues that they may face under different scenarios. However, there is considerable uncertainty in climate scenario models (e.g., around tipping points) which impacts the likely accuracy of quantitative assessments.

3.118 Due to the level of uncertainty for more distant time horizons, annual reports may use ranges or qualitative scales of severity[72] (e.g., likely financial impact, its duration and the relative significance to the organisation).

3.119 ~~The cost-benefit of quantitative climate scenario analysis should be considered.~~When broader impacts on the economy, the environment and the public are considered, a qualitative analysis may be ~~much~~ more appropriate. Please refer to para~~graph~~. 1.33 ~~and~~ to 1.37 for further details.

3.120 Whichever method is used for climate scenario analysis, annual reports must transparently describe the approach and its limitations. If third-party providers are used, they should be requested to provide clear explanations of their assumptions and method limitations.

~~3.102~~3.121 The cost-benefit of quantitative climate scenario analysis should be considered.

[72] 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.

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. Similarly, the terminology and categorisation of risk used by reporting entities may also vary (although Annex 4 of The Orange Book provides examples of risk categories which preparers may wish to consider).

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. 1.21 to 1.32).

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 . Examples of public sector specific climate-related risks are also included in the annex.~~

Recommended disclosures

~~4.9~~4.8 This section sets out the TCFD's recommended disclosures for Risk Management (in red boxes). UK public sector interpretations or adaptations have been for Risk Management recommended disclosures (a) to (c) – refer to Table B.2 (in Annex B~~), 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.).~~

> **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~~outline their risk management processes for identifying and assessing climate-related risks~~. An important aspect of this description is~~, highlighting how ~~organisations~~ they determine the ~~relative~~ significance of ~~climate-related~~these risks ~~in relation~~compared to other risks.

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

. Additionally, organisations should ~~also consider disclosing the following:~~

~~4.11~~4.9 disclose their processes for assessing the ~~potential~~ size and scope of identified climate-related risks and provide 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~~

~~4.12~~4.10 Organisations should ~~describe~~detail their processes for managing climate-related risks, including how they ~~make decisions~~decide to mitigate, transfer, accept, or control th~~o~~ese risks. ~~In addition, organisations~~They should ~~describe~~also explain their prioritisation processes for ~~prioritising~~ climate-related risks, including how materiality ~~determinations are made within their organisations.~~is determined.

~~In describing their processes for managing climate-related risks,~~ Organisations should address the relevant risks ~~included~~outlined in Tables A1.1 and A1.2 (in Annex A~~,~~) as ~~appropriate.~~

~~4.13~~4.11 ~~The~~part of their risk management description. These 'Examples of Climate-Related Risks/Opportunities and Potential Financial Impacts' ~~(Table and)~~ 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

~~Public sector considerations and further guidance~~

~~4.14~~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~~.~~ (e.g., National Risk Register). 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~~

~~The organisation must explain how its risk disclosures and management of climate-related risks are integrated into the overall risk management process.~~Public sector considerations and further guidance

~~4.15~~4.13 Climate risk may be managed alongside existing risk management procedures - without setting bespoke climate-related procedures.

~~4.16~~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.

~~4.17~~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

~~4.18~~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.

~~4.19~~4.17 Where an organisations existing risk types are impacted by climate, these cross-cutting risk types are likely to require integration into ~~existing~~the risk management ~~practices~~framework.

~~4.20~~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.

~~4.21~~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 Act [73] 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 1 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.

73 The 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 .~~

Public sector considerations and further guidance

Commentary

~~5.8~~5.7 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~~5.8 Organisations should ensure they include definitions and methodologies to explain their metrics and targets, particularly where they are organisation-specific.

~~5.10~~5.9 Where there are differences in the reporting boundaries for metrics and targets disclosures, these should be explained clearly.

Prior period reporting

~~5.11~~5.10 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~~5.11 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~~5.12 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., Greening Government Commitments (GGCs) for central government) are being used, the same baseline year should be applied for comparability.

~~5.14~~5.13 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~~5.14 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~~5.15 Prior period comparative information should not go beyond the baseline year.

Broader considerations

~~5.17~~5.16 Examples of ~~certain~~ different sustainability measurement types which public sector bodies may choose to use, include[74]:

- 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~~5.17 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~~5.18 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~~5.19 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~~5.20 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~~5.21 Disclosures related to broader considerations should be clearly separated from disclosures on entity-level operational impacts.

[74] CIPFA's Public Sector Sustainability Reporting: time to step it up; Public Agency Sustainability Reporting, GRI, 2004. Please refer to www.cipfa.org/protecting-place-and-planet/sustainability-reporting ~~CIPFA's ; , GRI, 2004;~~.

~~5.23~~5.22 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.

Recommended disclosures

~~5.24~~5.23 This section sets out the TCFD's recommended disclosures for Metrics and Targets (in red boxes~~), with 'Supporting guidance from TCFD' (in red)~~). UK public sector interpretations or adaptations have been made to ~~the supporting TCFD~~TCFD's Guidance for All Sectors for Metrics and Targets recommended disclosures (a) to (c) - refer to Table B.2 (in Annex B~~– explained later in this section (and in). The~~). 'Public sector considerations and further guidance' ~~section provides additional clarity to~~ guides annual report preparers~~, alongside~~ through the UK public sector-specific considerations to disclosure.

> ### 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~~

5.24 Organisations should ~~provide the~~disclose key metrics used to measure and manage climate-related risks and opportunities, ~~as described in~~ referencing Tables A1.1 and A1.2 (in Annex A~~;~~), as well as metrics ~~consistent with~~ from the cross-industry ~~*[or cross-sector]*,~~ climate-related ~~metric~~ categories ~~described~~ in Table B.3 (in Annex B~~.~~).

Organisations should ~~consider including~~ include relevant metrics on climate-related risks ~~associated with~~related to water, energy, land use, and waste management ~~where relevant and applicable.~~

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

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

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

~~Additional guidance for non-financial groups~~

5.27 ~~For all~~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~~metrics,~~ for further guidance.

~~5.27~~5.28 Organisations should ~~consider providing~~provide historical trends and forward-looking projections ~~(by~~for relevant ~~country and/or jurisdiction, business line, or asset type). Organisations~~metrics, disaggregated where appropriate. They should ~~also consider disclosing~~disclose metrics that support ~~their~~ scenario analysis and strategic planning ~~process and that are~~, as well as those used to monitor the ~~organisation's~~ business environment from a strategic and risk management perspective.

~~5.28~~5.29 ~~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~~should also be included, particularly those addressing potential financial ~~aspects~~implications of shifting demand, expenditures, asset valuation, and cost of financing.

~~5.29 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 and) may be less relevant for certain public sector bodies – refer to for further guidance.~~

Public sector considerations and further guidance

Industry and cross-sector comparatives

5.30 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. 1.30 to 1.32~~.~~ and Table 1.1.

5.31 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).

5.32 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

5.33 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.

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

Internal and Shadow Carbon Pricing

5.35 Internal carbon price (similar to shadow carbon price[75]) 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.

5.36 The government already uses internal carbon prices ('carbon/emissions values') to evaluate the impact of GHG emissions on policy and programme appraisals~~. This represents~~ – via the Supplementary Green Book Guidance on Valuing GHG emissions in policy appraisal. This offers a monetary value that society places on one tonne of carbon dioxide equivalent (£/tCO_2e).

5.37 These differ from external carbon prices, which represent the observed price of carbon in a relevant market (such as the UK Emissions Trading Scheme~~).~~ – addressed in Chapter 3).

5.38 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.

[75] Internal carbon pricing is when an organisation assigns a cost to its own carbon emissions to guide decision-making and investment, while shadow carbon pricing is a hypothetical price applied to assess the financial impact of future carbon costs without actual payment, typically used for long-term planning and risk assessment.

~~Supporting guidance from TCFD~~

5.39 Organisations should ~~provide~~disclose their Scope 1 and Scope 2 GHG emissions ~~independent of~~without a materiality assessment, and~~, if appropriate,~~ consider Scope 3 ~~GHG~~ emissions and ~~the~~ related risks. All organisations ~~should~~are encouraged to consider ~~disclosing~~their Scope 3 ~~GHG~~ emissions~~.~~ across their value chain.

5.40 GHG emissions should be calculated ~~in line with~~according to the GHG Protocol methodology to ~~allow for aggregation and~~ensure comparability across organisations and jurisdictions. ~~As appropriate, *organisations* should consider providing related,~~

Organisations may provide generally accepted industry-specific GHG efficiency ratios.

~~5.40~~5.41 ~~GHG~~ Emissions and associated metrics should be ~~provided~~reported for historical periods to ~~allow for~~enable trend analysis~~. In addition, where not apparent,~~, and organisations should ~~provide a description of~~describe the methodologies used to calculate or estimate these metrics where necessary.

~~Public sector considerations and further guidance~~

Existing emissions and climate-related reporting in central government

~~5.41~~5.42 Currently, ~~the GGCs require certain~~ central government bodies are required 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 Guidance[14] (SRG), ensuring the same underlying methodology is applied.

~~5.42~~5.43 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 scopes or sources~~– which are out-of-scope of the current GGC framework.~~. Some of these emission sources are considered in the SRG[76].

~~5.43 Where applicable, central government reporting boundaries should mirror the GGC boundaries. This may differ from the principle set out in para. .~~

5.44 ~~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~~may be reported in the sustainability report~~. However, appropriate~~ or the TCFD-aligned disclosure section – with cross-referencing ~~should be added~~as appropriate.

Other public sector bodies

76 Refer to the SRG for further information on Scope 3 GHG emissions categories outside of the business travel.

5.45 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

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

5.47 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 emissions methodology or reporting boundary with an existing ~~reporting~~ framework (e.g., GGCs for central government) then ~~simply~~ stating this alignment is sufficient.

5.48 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

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

Scope 3

5.50 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.

5.51 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~~

5.52 Organisations should ~~describe~~outline their key climate-related targets~~ such as~~, including those related to GHG emissions, water usage, and energy ~~usage, etc., in line~~consumption, aligning with the cross-industry ~~[and cross-sector]~~ climate-related metric categories in Table B.3 (in Annex B~~, where~~) and relevant~~, and in line with anticipated~~ regulatory ~~requirements~~ or market ~~constraints or other~~ goals. ~~Other~~Additional goals may ~~include~~encompass efficiency ~~or financial goals, [and]~~ targets, financial loss tolerances, avoided GHG emissions throughout the ~~entire~~ service delivery and product ~~life cycle, or~~lifecycle, and net revenue goals for low-carbon products and services~~ designed for a low-carbon economy.~~ .

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

- specify whether ~~the target is~~they are absolute or intensity-based~~;~~
- , the applicable time frames~~ over which~~, the ~~target applies;~~
- base year ~~from which~~for measuring progress~~ is measured;~~, and key performance indicators used to ~~assess~~track progress~~ against targets.~~

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

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

~~5.54 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

~~5.55~~5.54 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.

~~5.56~~5.55 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.

~~5.57~~5.56 Organisations should clearly highlight which Key Performance Indicators (KPIs) are used to monitor progress against targets and provide sufficient information to assess performance.

~~5.58~~5.57 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.

~~5.59~~5.58 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.

~~5.60~~5.59 Organisations should identify any areas where performance was not in accordance with the target and any actions taken to address this.

~~Annex B~~Annex A

Further guidance

~~TCFD's~~ Overview of the Task Force for Climate-related Financial Disclosures (TCFD) recommendations

Background

A.1 In 2015, the Financial Stability Board (FSB) established the TCFD to develop recommendations for more effective climate-related disclosures to promote more informed decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets [77] and exposures to climate-related risks.

A.2 TCFD's aim is for these disclosures to promote the management of climate-related financial risks and opportunities across the economy and financial system.

A.3 The government recognised the recommendations of the FSB's TCFD as one of the most effective frameworks for organisations to analyse, understand, and ultimately disclose climate-related financial information against.

A.4 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 [78] (ISSB) and the International Public Sector Accounting Standards Board [79] (IPSASB). Implementing TCFD's recommendations aligns the UK public sector with global best practice.

A.5 The responsibility for monitoring has been taken over by the ISSB. While the TCFD material is no longer being updated or monitored, this does not detract from the importance of the materials or how they link in to longer term advancements of sustainability reporting through the sustainability standards.

[77] Carbon-related assets are generally considered to refer to assets with relatively high direct or indirect GHG emissions.

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

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

Recommendation and guidance

~~B.1~~A.6 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.5 sets out the TCFD framework's structure and recommended disclosures.

Figure A.1 TCFD's Recommendations and Guidance

~~**Recommendations**~~
~~Four widely adoptable recommendations tied to Governance, Strategy, Risk Management, and Metrics and Targets~~

~~**Recommended Disclosures**~~
~~Specific recommended disclosures organisations should include in their financial filings to provide decision-useful information~~

~~**Guidance for All Sectors**~~
~~Guidance providing context and suggestions for implementing the recommended disclosures for all organisations~~

~~**Supplemental Guidance for Certain Sectors**~~
~~Guidance highlighting important considerations for certain sectors in providing sector- or industry-specific climate-related financial information Supplemental guidance is provided for the financial sector and for non-financial sectors potentially most affected by climate change~~

~~**Additional Supporting Materials**~~
~~Additional information and guidance to help preparers implement key components of the TCFD recommendations~~

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

Climate-related risks, opportunities and risk management

TCFD's guidance on climate-related risks and opportunities

~~B.2~~A.7 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:

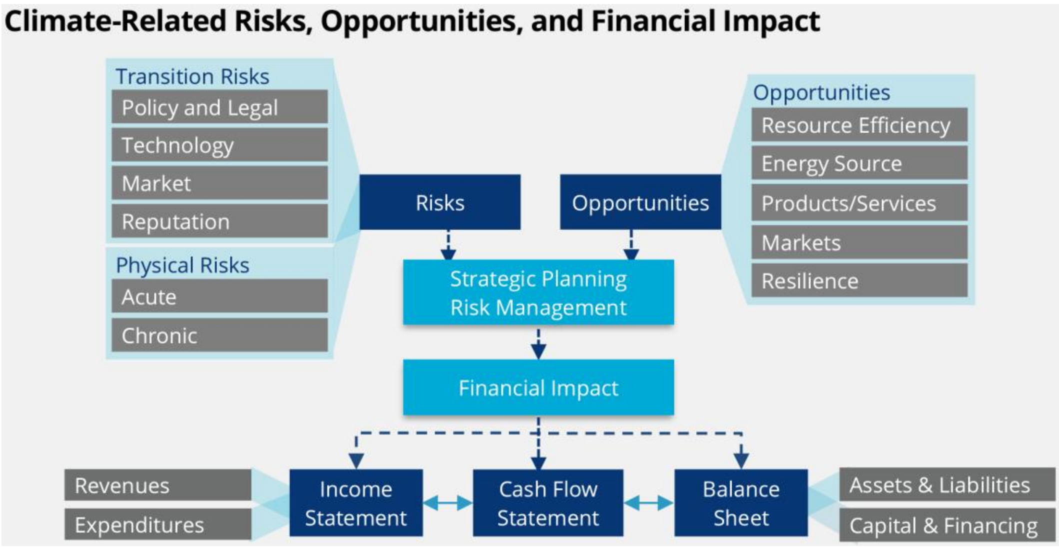
- **Physical risks** – adverse impacts (e.g., disruption to operations, destruction of property) either event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires) or longer-term shifts (chronic) in precipitation and temperature and increased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

~~B.3~~A.8 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.

~~B.4~~A.9 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 – Enhanced emissions-reporting obligations – Mandates on and regulation of existing products and services – Exposure to litigation	– 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~~Tec hnology	
	– Substitution of existing products and services with lower emissions options – Unsuccessful investment in new technologies – Costs to transition to lower emissions technology	– Write-offs and early retirement of existing assets – Reduced demand for products and services – 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 – Uncertainty in market signals – Increased cost of raw materials	– 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**	
	– Shifts in consumer preferences – Stigmatisation of sector – Increased stakeholder concern or negative stakeholder feedback	– 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	
	– Increased severity of extreme weather events such as cyclones and floods	– 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	
	– Changes in precipitation patterns and extreme variability in weather patterns – Rising mean temperatures – Rising sea levels	– 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/~~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 – Use of more efficient production and distribution processes – Use of recycling – Move to more efficient buildings – Reduced water usage and consumption	– Reduced operating costs (e.g., through efficiency gains and cost reductions) – Increased production capacity, resulting in increased revenues – Increased value of fixed assets (e.g., highly rated energy-efficient buildings) – Benefits to workforce management and planning (e.g., improved health and safety, employee satisfaction) resulting in lower costs
Energy Source	– Use of lower-emission sources of energy – Use of supportive policy incentives – Use of new technologies – Participation in carbon market – Shift toward decentralised energy generation	– Reduced operational costs (e.g., through use of lowest cost abatement) – Reduced exposure to future fossil fuel price increases – Reduced exposure to GHG emissions and therefore less sensitivity to changes in cost of carbon Returns on investment in low-emission technology – 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	– 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	– 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	– Access to new markets – Use of public-sector incentives – Access to new assets and locations needing insurance coverage	– 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	– Participation in renewable energy programmes and adoption of energy-efficiency measures – Resource substitutes/diversification	– 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/~~www.fsb-tcfd.org/publications/~~

Climate-related risks ~~particularly~~acutely relevant to the UK public sector

~~B.5~~A.10 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.

~~B.6~~A.11Example 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:

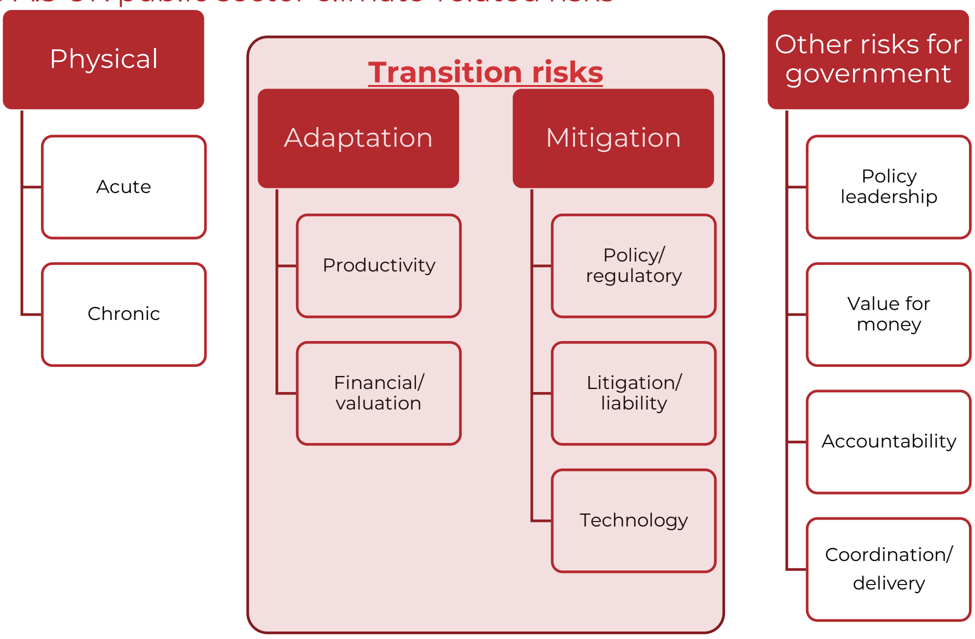
- **Policy leadership risk** refers to the danger of government failing to effectively address climate change due to the lack of a clear, coherent, and flexible strategy across departments. This risk encompasses uncertainties in technological development, changes in behaviour, and the need for transparent, 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 sector 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



UK public sector risk management

A.12 This section draws from existing risk reporting for UK public sector annual reports – on principal, new and emerging risks. While climate risk has certain unique characteristics (i.e., long tail, systemic in nature), organisation should identify, assess and manage climate-related risks in the same way as other risks they face.

A.13 This section does not constitute new requirements - however, for completeness existing risk management and reporting requirements have been included in this application guidance. In addition, relevant clarificatory FRC guidance on risk assessment and reporting has been included.

Risks identification and assessment

A.14 For risk assessments, organisations should consider the potential impact and probability of the related events, and the timescale over which they may occur (D4 of the Orange Book).

Principal risk

A.15 The Orange Book defines a principal risk as a risk or combination of risks that can seriously affect the performance or reputation of an organisation. This definition is based on the FRC guidance[80], which in turn has been used to supplement this section.

A.16 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 (footnote 2 of the Orange Book).

A.17 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 want an overview of those considered most important to the board.

New and emerging risk

A.18 Emerging risks include risks whose impact and probability are difficult to assess and quantify at present, but which could affect the organisation in the future.

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

A.19 Emerging risks regularly 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.

Risk reporting

A.20 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 risks[81].

A.21 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.

A.22 Where a principal 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.

A.23 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.

A.24 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 performance of the organisation.

New or emerging risk

A.25 Central government bodies are required to provide information on how the likelihood or possible impact of new and emerging risks has changed.

Risk categories and other considerations

A.26 Organisations are responsible for their own risk management - including the categorising and grouping of risks.

[81] 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.

A.27 The Orange Book recommends risks should be organised by taxonomies or categories of risk. Grouping risks in this way supports the development of an integrated and holistic view of risks. Annex 4 of the Orange Book provides example risk categories and groupings that may be useful for reporting entities to consider.

A.28 ~~source~~Considering the needs and preferences of management and comparability with sector and industry peers is useful when determining how risks should be organised.

Further reading and guidance sources for managing climate-related risk

~~B.7~~A.29 The Orange Book sets out the principals, concepts and approaches for risk management. Those charged with governance are responsible for an organisation's risk management. Other risk management frameworks may be useful to consider, alongside the Orange Book guidance, including:

- Financial risks –~~Other risk management frameworks may be useful to consider, alongside the Orange Book guidance, including:~~ for financial institutions, investors, portfolio managers, etc.
- ~~;~~International Organisation for Standardisation (ISO), specifically the following standards:
  - ISO 14090 Climate Change Adaptation - Guidelines for Managing Climate Change Adaptation
  - ISO 14091 Adaptation to Climate Change - Guidelines on Vulnerability, Impacts, and Risk Assessment
  - ISO 14080 Greenhouse Gas Management and Related Activities - Framework and Principles for Evaluating Climate Change-Related Investments and Financing Activities
  - ISO 31000 Risk Management – Guidelines
  - 14001 Environmental Management System
- Climate Change Risk Management Guidance

Other UK public sector climate risk frameworks

~~B.8~~A.30 The government identifies climate change as a risk in the National Risk Register[82].

~~B.9~~A.31 The CCC was established under the Climate Change Act 2008~~ and produces~~. Under the Act the government must have a periodic UK-CCRA produced. The UK-CCRA identifies priority risk areas

[82] The National Risk Register (2023): www.gov.uk/government/publications/national-risk-register-2023

for the UK government to address (including on freshwater, soil health, carbon stores, supply chains, etc).

~~B.10~~A.32 The Department for Environment, Food & Rural Affairs (Defra) publish the National Adaptation Programme (NAP) to respond to ~~UKCCRA's~~UK-CCRA's risks facing the natural environment, infrastructure, people and the built environment, business and industry, local government, and adaptation reporting.

~~B.11~~A.33 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 UK CCRA.

~~B.12~~A.34 The CCC independently assess progress toward reducing emissions progress on climate change adaptation plans.

~~B.13~~A.35 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~~-CCRA4, NAP3.

A.36 The CFRF has published various guides for finance professionals, including on risk management, scenario analysis, disclosures and metrics and targets. While these guides were predominantly produced for financial institutions, they are useful when considering climate scenario analysis.

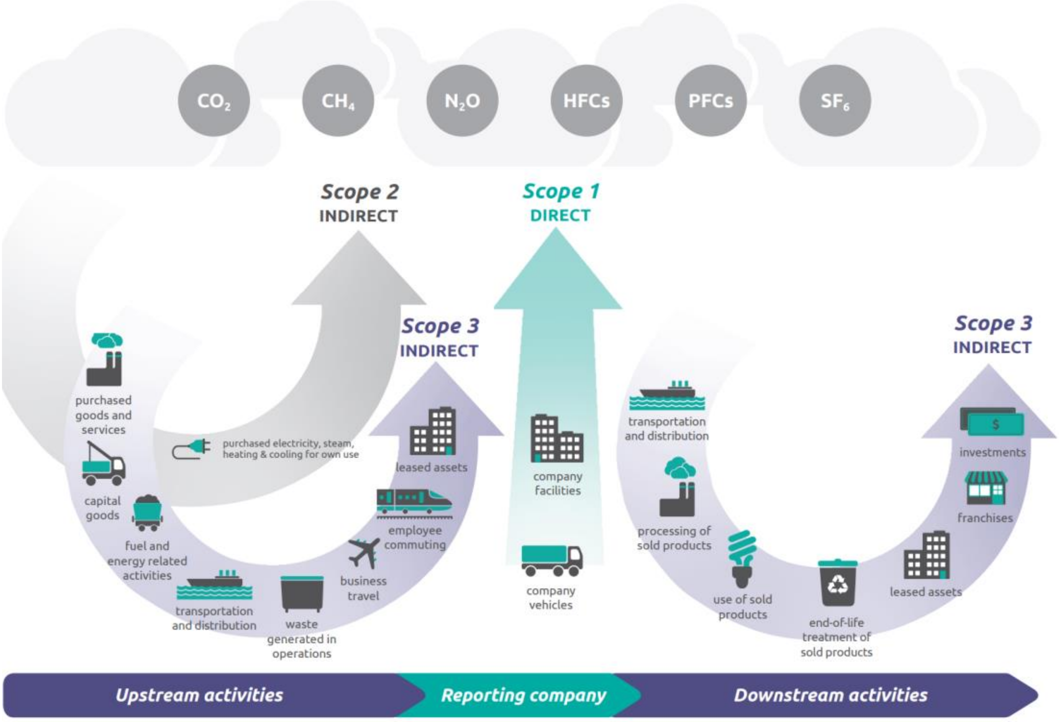
Metrics and targets

Emission scopes

~~B.14~~A.37 The GHG Protocol set out the emission scope levels as depicted in ~~.~~Figure A.4. This can be summarised as follows:

- **Scope 1** - all direct GHG emissions.
- **Scope 2** - indirect GHG emissions from consumption of purchased electricity, heat, or steam.
- **Scope 3** - 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.

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



Global warming levels and temperature increases under different model assumptions and pathways

A.38 This section explores the how different warming levels and temperature increases evolve under different pathways and assumptions.

A.39 The Climate Change Committee (CCC) Fourth Climate Change Risk Assessment (CCRA) provides expected global warming levels in Table A.2 under different conditions.

A.40 The IPCC's (and UKCP18's) model projections for the 5th and 6th Assessment Reporting are depicted in Table A.3 and Table A.4.

Table A.2 Global Warming Level Pathways identified by CCC in CCRA4 methodology

	Central scenario			High climate hazard sensitivity		
Time period	**2030s**	**2050s**	**2080s-2100**	**2030s**	**2050s**	**2080s-2100**
Global warming level (above preindustrial levels)	1.5ºC	2ºC	2ºC	2ºC	2.5ºC	4ºC

~~TCFD's guidance on metric categories~~

~~B.15~~A.1~~The Task Force published Guidance on Metrics and Targets which includes seven metric categories (Table). 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.~~

UK climate hazards	Median of UKCP18 at 1.5°C	Median of UKCP18 at 2°C	*If current Nationally Determined Contributions (NDC) and net zero targets are delivered central estimates keep levels of between 1.5–2°C*	Upper-end UKCP18 at 2°C	Upper-end UKCP18 at 2.5°C	*If current policy scenarios reaching/ exceeding 4°C by 2100*

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

IPCC's Assessment Report Models and UKCP18

Table A.3 IPCC Coupled Model Intercomparison Project Phase 5 (CMIP5) – used for the IPCC's 5th assessment report and UKCP18 (Seneviratne et al., 2021):

RCP	**Associated mid-century temperature increase relative to pre-industrial temperature (°C)** *Multi-model average, 5-95% range*	**Associated end of century temperature increase relative to pre-industrial temperature (°C)** *Multi-model average, 5-95% range*
RCP 2.6	1.7 (1.3-2.2)	1.7 (1.1-2.3)
RCP 4.5	2.0 (1.5-2.6)	2.5 (1.8-3.2)
RCP 6.0	1.9 (1.4-2.4)	2.8 (2.3-3.6)
RCP 8.5	2.5 (1.9-3.2)	4.4 (3.2-5.5)

Source: IPCC 5th assessment report

The Met Office has published the full UKCP18 values which are available here:
www.metoffice.gov.uk/research/approach/collaboration/ukcp/summaries/headline-findings

Table A.4 IPCC Coupled Model Intercomparison Project Phase 6 (CMIP6) – used for the IPCC's 6th assessment report (Lee et al., 2021):

SSP-RCP	Associated mid-century temperature increase relative to pre-industrial temperature (°C) *Multi-model average, 5-95% range*	Associated end of century temperature increase relative to pre-industrial temperature (°C) *Multi-model average, 5-95% range*
SSP1 – 1.9	1.7 (1.1-2.4)	1.5 (1.0-2.2)
SSP1 – 2.6	1.9 (1.2-2.7)	2.0 (1.3-2.8)
SSP2 – 4.5	2.1 (1.5-3.0)	2.9 (2.1-4.0)
SSP3 – 7.0	2.3 (1.6-3.2)	3.9 (2.8-5.5)
SSP5 – 8.5	2.6 (1.8-3.4)	4.8 (3.6-6.5)

Source: IPCC 6th assessment report

Figure A.5 Overview of the TCFD framework

Illustrative example

A UK public sector organisation ('Body A') operates significant national infrastructure, such as transport networks or public utilities (e.g., energy distribution). They oversee several group entities, including regional authorities and subsidiary organisations responsible for service delivery and infrastructure management. As a regulatory authority, Body A is responsible for shaping and enforcing policies related to environmental protection and climate change mitigation.

In their risk assessment, Body A considers climate-related risks through three distinct lenses: their own operations, relationships with group entities, and their policy/regulatory role. They deem climate to be a significant risk to their operations and policy/regulatory role.

Lens: Operations
Climate change poses a risk to Body A's operations due to the following:

- **Physical risks** - increased frequency and severity of extreme weather events (e.g., floods, storms, heatwaves) may disrupt transport or energy services, damage assets, and increase repair and maintenance costs.
- **Operational efficiency** - rising temperatures could impact energy demands (cooling needs) or stress public transport systems (e.g., rail buckling, road surface damage), leading to unplanned service outages or operational inefficiencies.

To manage this risk, Body A may need to invest in infrastructure resilience, such as flood defences, robust transport routes, or enhanced energy grid management systems. These risks are within existing operational boundaries. When considering the relative significance of these risks, Body A should assess this from both a financial materiality perspective and from a risk perspective which involves a quantitative assessment.

Lens: Group entities
Body A's group entities face climate-related financial and reputational risks:

- **Transition risks** - new climate policies or carbon regulations may increase costs related to emissions reductions, energy efficiency upgrades, and compliance measures. This could lead to stranded assets if existing infrastructure becomes non-compliant with new environmental standards.

- **Financial exposure** - climate change may lead to increased insurance premiums for asset protection or decreased availability of insurance for high-risk assets in flood-prone areas, affecting the financial stability of group entities.

Body A must ensure that its group entities have effective climate adaptation and transition strategies and report climate-related financial risks across the group. The materiality lens must be from the perspective of Body A (and its primary users), not the individual bodies within the group. However, these risks should be considered in aggregate.

Lens: Policy and Regulatory Role

Body A's assesses climate's impact on their policy/regulatory role. They decide that climate is a principal risk based on:

- **Regulatory gaps and stakeholder pressure** - Body A may face significant reputational risk if it fails to develop and enforce regulations that adequately address the impacts of climate change. This includes setting stringent emission reduction targets, climate adaptation standards, and ensuring compliance with national and international climate frameworks (e.g., Net Zero targets).
- **Policy uncertainty** - the evolving nature of climate policy, both nationally and globally, could create uncertainty for regulated entities, impacting investment decisions and long-term planning. Body A may be exposed to risk if it does not remain proactive in aligning its policies with emerging climate science and regulations.

To mitigate these risks, Body A may need to update policies/regulation in response to climate science and align current frameworks with government-wide climate goals. When considering what information to report to primary users, Body A must consider the impact of climate on their strategy (including on people, the environment and the economy)

Climate-related disclosures in the annual report

After analysing the risks associated with climate change and the transition to net zero across each of these different lenses, Body

A's governance team assess climate to be a principal risk for the organisation.

Consequently, Body A must comply or explain against each of the eleven recommended disclosures across the four pillars. Nevertheless, the level of detail for climate information depending on materiality across each of these disclosures, and whether to include an assessment for each lens will vary.

Body A identifies significant infrastructure risk exposure. After reviewing the TCFD metrics (Table B.3), it judges the data material and includes both the percentage and absolute value of assets exposed to physical and transitional climate risks. Although the accounts use strict operational boundaries to record assets, Body A should consider including information on other relevant assets, whether across its group or sector, if this enhances primary users' understanding of the organisation's performance and accountability.

	Operations	**Group**	**Policy/ regulatory role**
Governance	Likely to constitute material information because its fundamental to understanding overall governance	Where a principal climate risk stretches across the group, or Body A identifies a principal risk within its group structure, then include disclosure.	Where a principal climate risk relates to policy or regulation role.
Risk Management	As above	As above	As above
Metrics and Targets¥	Scope 1 and Scope 2 GHG emissions Exposure (%, £) of assets with physical/transitional risks Targets for emissions reduction (interim and delivery)	Where a principal climate risk stretches across the group, or Body A identifies a principal risk within its group structure, then identify and disclose metrics and targets to assess and manage the principal risk.	Where a principal climate risk relates to policy or regulation, then identify and disclose the related metrics and targets to assess and manage the principal risk.
Strategy¥	Disclose material information on risks, opportunities and impacts of climate on operations.	Disclose material information on risks, opportunities and impacts of climate on group.	Disclose material information on risks, opportunities and impacts of climate on policy and regulation.

Consider appropriate lens to consider the development of risks (and opportunities) across different time horizons and reference periods.

¥ - if Body A did not consider climate to be a principal risk, disclosure would only be required against recommended disclosures associated with the Governance and Risk Management pillars - not the Metrics and Targets or Strategy pillar.

Annex B

UK public sector interpretations and adaptations

~~B.16~~B.1The 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 ~~3.~~ Table B.1 Furthermore, certain underlying disclosure requirements and supporting guidance are less applicable for most UK public sector bodies. The guidance has been adopted accordingly.

~~B.17~~B.2 These interpretations and adaptations are limited specifically to this guidance (and the UK public sector) and should not be applied more widely.

Terms and concepts

Table ~~A.3~~B.1 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.

Private sector	Public sector	Explanation
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
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.

Private sector	Public sector	Explanation
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 the meanings are 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.

TCFD's supporting Guidance for All Sectors and Non-Financial Groups

B.3 The Task Force included further guidance on the specific recommended disclosures in TCFD's Guidance. This is split by sector and industrial grouping. Interpretations and adaptations have been made to the 'Guidance for All Sectors' and 'Non-Financial Groups'. These UK public sector interpretations and adaptations have been explained in Table B.2.

TCFD's guidance on metric categories

B.4 The Task Force published Guidance on Metrics and Targets which includes seven metric categories (Table B.3). 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.

~~Global Warming Level Pathways identified by CCC in CCRA4 methodology~~

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

Table B.2 TCFD's Guidance for All Sectors

Recommended Disclosure	**TCFD's Guidance for All Sectors** *Adaptations/interpretations are denoted by italics*	**Explanation**
Governance a) Board's Oversight	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	Minor adaptations and interpretations have been made in respect of private sector terms – refer to Table B.1. Machinery of government changes have been included as an example of government restructures.

	performance objectives, monitoring implementation and performance, and overseeing major capital expenditures investment or grant decisions, and restructures *(e.g., Machinery of Government changes)*; andhow the board monitors and oversees progress against goals and targets for addressing climate-related issues.	
Governance b) Management's Role	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; andhow management (through specific positions and/or management committees) monitors climate-related issues.	Minor adaptations and interpretations have been made in respect of private sector terms – refer to Table B.1.
Strategy a)	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;	Minor adaptations and interpretations have been made in respect of private sector terms – refer to Table B.1.

	• 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).	
Strategy b) Impacts	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 funding and 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 prioritised. Organisations’	Minor adaptations and interpretations have been made in respect of private sector terms – refer to Table B.1. Government and public sector bodies are responsible for significant grant programme where they make capital allocation decisions. The impact of these grant programmes should be considered be considered.

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 *(as well as grant funding)*. • 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.	
Strategy c) Scenario Analysis	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 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	Minor adaptations and interpretations have been made in respect of private sector terms – refer to Table B.1. Revenue thresholds The one billion U.S dollar equivalent (USDE) revenue threshold for conducting a more robust scenario analysis is not appropriate for UK public sector bodies. Size thresholds to determine which central government bodies are

- 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.

required to adopt TCFD-aligned disclosure were introduced in Chapter 1 and align with the UK private sector.

The scenario analysis requirements in Chapter 3 set out the extent, level of detail and quantification of climate scenarios for UK public sector bodies.

Risk Management a) Identification and assessment	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.	Minor adaptations and interpretations have been made in respect of private sector terms – refer to Table B.1.
Risk Management b) Risk Management	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.	Minor adaptations and interpretations have been made in respect of private sector terms – refer to Table B.1.
Risk Management b) Integration	Organisations should describe how their processes for identifying, assessing, and managing climate-related risks are integrated into their overall risk management.	Minor adaptations and interpretations have been made in respect of private sector terms – refer to Table B.1.

Metrics and Targets a) Metrics	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 B.3 (in Annex B). 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 B.3 (in Annex B), 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	Minor adaptations and interpretations have been made in respect of private sector terms – refer to Table B.1. Removed 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

	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.	
Metrics and Targets b) Emissions	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.	While only Scope 1 and Scope 2 GHG emissions are mandatory – organisations should incorporate Scope 3 emissions where they are already calculated and reported under separate UK public sector frameworks (e.g., GGCs for central government). Organisations should consider Scope 1 and Scope 2 emissions which are not captured by the GGC framework (e.g., oversees). Organisations should consider reporting Scope 3 emissions where they assess the information to be material to primary users.

Metrics and Targets c) Targets	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 B.3 (in Annex B), 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.	Adapted to introduce reference to 'service delivery' in lifecycle emissions considerations relevant for public sector bodies. Removed 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.

Source: www.fsb-tcfd.org/

Table B.3 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 unless the reporting entity deems this information material for primary users.
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. Other opportunities (e.g., technology innovation) may exist but are likely to be more qualitative in nature.
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 *operational* models that are vulnerable to future policy responses to climate change and which are adapting their *operational* 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. 5.35 to 5.38 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. 5.33 and 5.34 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/

Annex C

Phased implementation approach

C.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 drive~~for effective and efficient implementation.

C.2 Generally, organisations choose to address the high-level qualitative recommendations for the Governance pillar first - to engage senior leadership. Organisations often then make disclosures against the Risk Management and Metrics and Targets pillar - before attempting the more complex and quantitative disclosures for Strategy. This has informed our implementation timetable for central government - set out in ~~:~~Table C.1.

C.3 ~~While in-scope~~ Central government bodies adopted the TCFD recommendations in a phased approach, with aligning phased application guidance released by HM Treasury, as follows:

Phase 1 (issued July 2023) addressed:

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

~~must follow the implementation timetable set out in~~ **Phase 3 (issued December 2024) addresses:**

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

~~C.3~~C.4 Implementation was subject to the ‘comply or explain’ ~~disclosure~~ basis ~~applies (as it does~~ for ~~individual disclosures). Therefore,~~ disclosure and central government entities ~~may~~were able to choose to diverge from the implementation timetable, on the condition that ~~they provide an explanation~~this was explained in the TCFD Compliance Statement - refer to para. ~~-~~1.44.

~~C.4~~C.5 Reporting entities should assess progress and evaluate performance throughout implementation. This includes an appropriate level of oversight by those charged with governance in their review and approval of each year’s annual report.

~~C.5~~C.6 Setting out a clear and realistic implementation timetable will likely improve the quality and effectiveness of disclosure, and reduce the burden. The phased approach for central government may be used as a template, recognising the differences in users’ informational needs, risks and capacity.

~~C.6~~ Relevant authorities may choose to set their own implementation timetables which entities must follow where relevant.

C.7 ~~Similarly,~~ 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~~C.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: • Governance • Metrics and Targets (b), only where available from existing reporting processes. Comply or explain basis	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: • Governance • Risk Management • Metrics and Targets Comply or explain basis	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: • Governance • Risk Management • Metrics and Targets, considering wider reporting. • Strategy Comply or explain basis
Interaction with GGC framework	Continue to apply GGC21-25 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 whether further additional ~~support on~~ emissions ~~methodology~~reporting is appropriate (e.g~~:~~., on Scope 3, oversees emissions).

Annex D
List of abbreviations

D.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
CCC	Climate Change Committee
CCRA	Climate Change Risk Assessment
CIPFA	Chartered Institute of Public Finance and Accountancy
CFRF	Climate Financial Risk Forum
CMIP	Coupled Model Intercomparison Project
Defra	Department for Environment, Food & Rural Affairs
DESNZ	Department for Energy Security and Net Zero
DHSC	Department for Health and Social Care
FCA	Financial Conduct Authority
FRAB	Financial Reporting Advisory Board
FRC	Financial Reporting Council
FReM	Government Financial Reporting Manual
FSB	Financial Stability Board
GAM	Group Accounting Manual
GGCs	Greening Government Commitments
GHG	greenhouse gas
GWL	Global Warming Level
IFRS	International Financial Reporting Standards
IPCC	UN's Intergovernmental Panel on Climate Change
IPSASB	International Public Sector Accounting Standards Board
ISSB	International Sustainability Standards Board
LLP	Limited Liability Partnership
MPM	Managing Public Money
NDC	Nationally Determined Contributions
NAP	National Adaptation Programme
NHS	National Health Service
ONS	Office for National Statistics
R&D	Research and development

RCP	Representative Concentration Pathways
SDG~~s~~	UN Sustainable Development Goal~~s~~
SRG	Sustainability Reporting Guidance
SSP	Shared Socioeconomic Pathways
TCFD	Task Force on Climate-related Financial Disclosure
UN	United Nations

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