Financial Reporting Advisory Board

Issue:	The paper is to accompany the Sustainability Reporting Thematic Review, and sets out our plans for sustainability reporting and our approach for 2025-26 and beyond.
Impact on guidance:	Impacts the Sustainability Reporting Guidance (SRG) for 2025-26, with sustainability reporting requirements related to the Greening Government Commitments (GGCs) 2025-30 applying from 1 April 2025.
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. Climate- and sustainability-related reporting may impact WGA's performance reporting in the future.
IPSAS compliant?	N/A - No IPSAS compliance considerations
Interpretation for the public sector context?	No – No IAS/IFRS interpretations/adaptations are proposed in this paper.
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 accompanying thematic review.
Timing:	The Board is asked to provide any feedback at this meeting – for publication of the thematic review on GOV.UK over summer 2025, alongside the SRG for 2025-26.

1. Sustainability reporting is becoming increasingly vital in enhancing transparency, accountability, and resilience across the UK public sector. It supports preparedness for climate-related risks and ensures progress toward the government's environmental and sustainability commitments.
2. HM Treasury is advancing this by implementing the Task Force on Climate-related Financial Disclosures (TCFD) in the central government context, reinforcing its commitment to climate risk management and informed decision-making. Following FRAB's approval at the last meeting, HMT published the third and final phase of the TCFD-aligned disclosure Application Guidance on 17 December 2024.
3. Given the conclusion of TCFD implementation and changes elsewhere in the sustainability reporting landscape, HMT launched a thematic review to assess the existing sustainability reporting frameworks and consider whether to update their

approach to setting reporting requirements. This paper accompanies a document intended to publicly set out the conclusions of the thematic review; refer to Annex 1.

The Board are asked to discuss this paper and the accompanying thematic review, considering the following:

- *HMT's plan not to fully incorporate Defra's new Greening Government Commitments (GGCs) for 2025-30 in the Sustainability Reporting Guidance (SRG) for 2025-26. Certain key GGC metrics, including emissions reporting, may be incorporated once GGC25-30 requirements are finalised, but mandatory reporting requirements on most metrics will be removed.*
- *HMT's plan to require GGC emissions reporting (as a temporary measure) in ARAs and support DESNZ in their work to develop cross-UK public sector emissions reporting guidance, continuing to advocate for information which meets the needs of ARA users.*
- *HMT's plan to consolidate ARA sustainability reporting requirements where possible (which appear in a variety of sources, including the FReM, SRG, PES papers, and TCFD application guidance).*
- *HMT's view that there is a case for change for sustainability reporting in ARAs in terms of going further than existing requirements. This has been supported by the results from the thematic review (and wider developments). However, given the existing uncertainty in the wider sustainability reporting landscape, it is too early to say definitively what any next steps here should be.*
- *HMT's plan to return to the Board in November 2025, with a potential early proposal for going further than existing SRG and TCFD requirements in central government sustainability reporting, depending on external developments in this area.*

Thematic Review

4. The thematic review:
    - assessed recent sustainability reporting developments.
    - evaluated existing sustainability reporting requirements and practices across central government (through surveys and interviews)
    - appraised existing sustainability reporting information at meeting the needs of users (through surveys and interviews)
    - considered whether changes should be made to existing sustainability reporting requirements.
5. The thematic review was focussed on sustainability reporting in the context of ARA reporting specifically, considering how to achieve the best-quality sustainability disclosures in ARAs that would be most relevant and useful to ARAs' readers. The review also considered sustainability reporting in other contexts, with different purposes, to assess whether sustainability reporting in ARAs should align with those

other requirements, but bearing in mind that those differences meant that alignment was not always appropriate for ARAs.

Survey results

6. As one part of the thematic review HMT carried out a survey focusing on canvassing the views of interested stakeholders working in a variety of areas in public sector bodies, such as finance, sustainability, and risk, as well as users of accounts. The survey collected views on the current sustainability reporting requirements across government as well as a number of options for the future of sustainability reporting. The survey focussed specifically on sustainability reporting in ARAs.
7. The results of the survey are summarised in this section but note that HMT also took into account other factors when developing the recommendations in this paper, such as individual interviews and other stakeholder engagement, and considering sustainability reporting guidance in the context of broader trends and goals for financial reporting guidance generally. Additionally, caution should be taken against extrapolating the results of the survey too broadly, given that respondents were self-selecting, and the survey only reflects the views of a subsection of stakeholders.
8. To summarise the key results to the survey:
   - Key figures for the makeup of individuals responding to the survey included:
     - 31% identified as working in finance, 58% identified as working in sustainability or estates, with the remaining 8% split across Risk, Policy, strategy, and actuarial work.
     - 10% of respondents identified as primarily users of accounts, 10% as working in an ALB/Executive Agency, 6% as working in a public corporation, 13% as working in a non-ministerial department, 26% as working in a Non-Departmental Public Body and 35% as working in a Ministerial Department.
   - There was strong support to reduce the number of mandatory SRG reporting requirements for ARAs, by separating GGCs metrics and targets by those that are mandatory and those that are not for purposes of ARA reporting (support: 66%, neutral: 24%, against: 10%).
   - The following areas had the lowest support for mandatory reporting: rural proofing: 1%, paper use: 4%, sustainable construction: 4%, biodiversity and nature recovery: 5%.
   - There was some support to encourage the publication of certain environmental and sustainability elements separately from ARAs (support: 36%, neutral: 39%, against: 25%).
   - In order of preference, respondents valued:
     - consistency across the UK public sector (agree: 94%, disagree: 6%)
     - alignment with international standards (agree: 90%, disagree: 10%)
     - flexed requirements depending on the size of the organisation (agree: 88%, disagree: 12%)

  - alignment with the GGCs (agree: 79%, disagree: 21%)
  - comparability with private sector requirements (agree: 62%, disagree: 38%)
  - flexibility to allow organisations to report on what they consider important (agree: 50%, disagree: 50%)[1]
- There was not a strong consensus, but survey respondents leaned towards agreeing new TCFD-aligned disclosures were sufficient (agree: 35%, neutral: 48%, against: 17%), with support for ISSB alignment (agree: 43%, neutral: 43%, disagree: 14%) or alignment with other alternative frameworks (agree: 43%, neutral: 29%, disagree: 28%).
- There was more support for developing and adopting a cross UK public sector standard that goes further than TCFD in the next two years (agree: 60%, neutral: 33%, against: 7%), as compared to delaying this for five years (agree: 31%, neutral: 31%, against: 38%).
- Amongst users specifically, there was:
  - support for reporting sustainability and environmental information separately from the ARAs (e.g., reporting by the Government Property Agency (GPA), including detailed information in separate reports) and only reporting on specific elements in the annual report (e.g., headline figures, key movements/progress). Views were that the sustainability information is too detailed making it challenging to navigate and less useful.
  - strong support for consistency across the UK public sector and flexing the requirements depending on the size of the organisation. On other preferences (covered above) there were less consistent views.
  - The Parliamentary Unit affirmed their strong support for comparable ARAs across the public sector with useful sustainability-related disclosures. They were broadly supportive of aligning sustainability reporting with international standards and the private sector but emphasised the need to support government priorities.

Qualitative stakeholder feedback

9. As part of the survey, we also received qualitative feedback from respondents. Additionally, HMT held interviews with key stakeholders to gather further views. This work highlighted several key challenges in sustainability reporting across government entities.
10. Data quality and availability were significant concerns for stakeholders, who specifically mentioned inconsistent metrics, reliance on third-party data providers (such as GPA), and delays in obtaining accurate sustainability figures.
11. Stakeholders highlighted that finance teams often do not see TCFD reporting as their responsibility, while the complexity of multiple reporting frameworks (e.g., TCFD,

[1] Note that all of the above options cannot necessarily exist in parallel.

GGCs, UNSDGs) leads to inconsistencies in reporting across departments and ALBs. In addition, tight reporting deadlines and a lack of structured assurance processes create further barriers to high-quality, accurate and timely disclosures.

12. Some stakeholders highlighted that, while TCFD-aligned disclosures are considered useful for integrating climate risk into financial decision-making, GGCs are seen as misaligned with Net Zero 2050 objectives as stakeholders felt there was not enough flexibility in GGC metrics for departments to report against their individual Net Zero approach and progress.[2] Given the importance of Net Zero to departments' long term climate strategies, these stakeholders argued that this means that reporting against GGCs does not offer useful information about departments' long term climate strategies. Some stakeholders advocated for a materiality-based approach in ARAs rather than a rigid compliance model to ensure sustainability reporting focuses on the most relevant risks and opportunities.

13. To address these challenges, respondents were supportive of proposals aligning public sector sustainability reporting in ARAs more closely with ISSB's S1 and S2, ensuring a structured, internationally recognised approach that provided scope for reporting on the climate risks and opportunities most material to an entity.

14. Stakeholders felt that data transparency needs to be improved, with requests for GPA and other data providers to supply more timely and accurate information. Stakeholders felt that leadership accountability should be strengthened, embedding sustainability within governance frameworks such as Managing Public Money. Additionally, stakeholders requested that integration of sustainability into financial reporting be enhanced, ensuring departments explicitly disclose climate risks rather than treating them as secondary considerations.

15. Generally, views from respondents were that next steps for sustainability reporting should include streamlining reporting obligations by consolidating SRG, TCFD, and GGC reporting, reducing duplication while maintaining necessary disclosures. There was also strong support for centralising sustainability data collection, with a proposed role for DESNZ or Cabinet Office in managing standardised sustainability metrics, although it is worth noting that Defra already centrally collect and report on GGCs data so this is already being done.

16. Furthermore, stakeholders noted that the need for international comparability is increasing, suggesting that UK public sector reporting should evolve in line with global sustainability standards. While some stakeholders support a separate sustainability report, concerns remain that removing sustainability disclosures from ARAs could weaken scrutiny and accountability, pointing towards a hybrid approach where high-level disclosures remain in ARAs while more detailed information is presented in separate reports.

GGCs and ARA reporting comparison

17. Current central government ARA sustainability reporting requirements (in the SRG) align with the GGCs. The GGCs set environmental sustainability targets for UK government departments and their executive agencies, aiming to improve the

[2] Note that the intention for future GGC emissions targets is that they will be aligned to carbon budgets.

environmental impact of government operations. These commitments focus on key areas, including reducing GHG emissions from buildings and transport, improving resource efficiency through waste reduction and increased recycling, lowering water consumption, producing climate adaption and nature recovery plans and promoting sustainable procurement practices. By embedding sustainability into government operations, the GGCs contribute to broader objectives, including statutory Climate Change and Environment Act targets, demonstrating the UK's leadership in these areas, and persuading individuals, businesses and the wider public sector to make greener choices.

18. The new GGC25-30 commitments are due for publication in early 2025-26, and will apply from 1 April 2025. For each new commitment period Defra, coordinating with other policy leads across government, has made significant updates to the underlying commitments, metrics and targets. Historically, HMT has used new commitment periods as an opportunity to make more substantive updates to the SRG.

19. Since their inception, the GGCs have expanded in scope and detail. At the early GGCs development phase HMT suggested that Defra consider international frameworks and wider public sector alignment when developing their framework. However, the new GGCs are likely to align with the government's environmental and climate policy objectives rather than international frameworks. There are other differences between GGCs information and ARAs:

    - The climate and environmental commitments, metrics and targets for the GGCs are often different to the internal metrics and targets used by departments to track their environmental and climate performance, as the GGCs need to be applicable to a wide range of organisations.

    - ARAs focus on material information aimed at parliament, while GGC reporting is intended to disclose the departmental contribution to specific government policy aims. GGC information is consolidated for central government and published separately by Defra in a performance report, based on quarterly returns from departments on their groups.

20. On emissions specifically, the GGCs are not currently fully aligned with the GHG Protocol:

    - They do not apply the same definitions on Scope 1, Scope 2 or Scope 3, with Defra categorising emissions into direct and indirect categories, rather than applying the GHG Protocol terminology, although this is expected to be amended in the 25-30 framework.

    - They use a modified concept of operational control. DESNZ set their own GGCs allocation rules depending on the occupancy and owner of the estate asset. This is often misaligned with operational control from an IFRS perspective (e.g., the Government Property Agency (GPA) does not report on emissions for the buildings it owns and controls under IFRS requirements). After detailed policy work and engagement this is expected to be retained in the 25-30 framework. This decision has been made to try and drive maximum accountability across government and to reflect observed differences in notional and practical control relating to sustainability outcomes.

- They only include Scope 1, Scope 2 and Scope 3 emissions from UK based operations and not overseas emissions because this aligns with government's Net Zero 2050 targets and Carbon Budgets, which also only focus on domestic emissions.

21. While the SRG and TCFD Application Guidance have allowed central government bodies to use GGC emissions metrics and targets, both set out wider considerations and point to the GHG Protocol for a comprehensive carbon accounting methodology.

22. Some preparers have argued that the GGCs do not account for an entity's full carbon footprint. Many are choosing to go further on sustainability and environmental reporting in ARAs (e.g., pg.45 of MOD's ARAs). Defra advises that the scope of carbon reporting in GGCs reflects, amongst other factors, challenges around data collection, quality and accuracy for more extensive reporting, in particular for scope 3 emissions. However, recognising the appetite for additional reporting, the new framework is expected to include guidance for organisations seeking to carry out additional voluntary reporting.

DESNZ emissions reporting

23. To ensure that public sector organisations have the right information and incentives to identify decarbonisation opportunities, better manage their energy and emissions and contribute to the sector effort share required to meet Carbon Budgets, DESNZ has launched a project to develop public sector emissions monitoring and reporting guidance. They have already published the results of their research and development stage with the reporting guidance expected to be published late 2025.

24. The DESNZ research evaluates 16 emissions reporting frameworks (nine public sector and seven private sector). The report highlights that there are a number of different ways to approach emissions reporting, and the purpose of reporting should drive the design of emissions measurement and reporting systems. It also identifies a number of different mechanisms through which public sector reporting can drive decarbonisation. It highlights significant variation in public sector reporting frameworks, with differences in scope, target-setting, and decarbonisation mechanisms. The report notes that effective frameworks promote transparency, accountability, and stakeholder engagement, driving emissions reductions. However, key challenges include inconsistent data collection, varying reporting scopes, and a lack of standardised metrics, limiting comparability across the sector.

25. The report recommends developing unified guidance tailored to public sector needs, investing in capacity-building to improve reporting capabilities, and enhancing transparency through public disclosure of emissions data. These findings will support the development of consistent emissions reporting guidance, helping public sector organisations contribute to the delivery of the UK's net-zero targets. HMT sits on the steering committee for this project and is contributing to the upcoming consultation and subsequent guidance. We will continue to keep FRAB updated on consultation and guidance as appropriate.

HMT conclusions on interaction between GGCs and ARA reporting

26. In HMT's view, overall, the different reporting purposes, reporting channels, and intended audience between GGCs and ARAs discussed above, as well as

capacity/resource constraints, mean that the two frameworks should not be fully aligned at this stage.

27. Considering the issues discussed above and the feedback received from the thematic review, HMT's view is that GGC reporting within ARAs should no longer be fully mandatory (with some exceptions discussed below, including emissions). We plan to highlight that its good practice to publish GGC data as part of the annual reporting cycle, however, this information may be reported separately from the ARA.

28. As a temporary measure, in the interim to DESNZ producing UK public sector emissions reporting guidance or adopting UK public sector standards (where a final decision is not expected to be made before SRG 25-26 is published), the emissions reporting methodology in the GGCs will be mandated as a minimum for central government bodies in the SRG. This includes Scope 1, Scope 2, and Scope 3 (business travel) GHG emissions. Where departments have capability, they can consider other material emissions beyond the GGC boundaries, using the GHG Protocol. This approach was used in the TCFD Application Guidance (para. 5.39-5.48 TCFD-AG). The SRG will be updated to clarify this approach, noting the existing information on the GHG Protocol (para. 2.20-2.23 SRG24-25)). HMT will also include further clarifying guidance in the SRG to support preparers to disclose overseas emissions more effectively (under the GHG Protocol) and support a reconciliation to departmental and government net zero target.

29. As discussed above, departments' climate and environmental performance are often tracked using internal metrics and targets, separately from those that measure performance in the GGCs. To support preparers to meet the needs of users, HMT have identified improvements to make to the SRG as opposed to relying on GGC reporting, balancing the need for cross government comparability, while granting a level of flexibility to align with ARA reporting principles (e.g., operating control, reporting boundaries).

30. While for all the reasons discussed above, HMT does not think that mandatory reporting against all GGC metrics is the best path forward for sustainability reporting in ARAs, there may be key metrics beyond the emissions reporting discussed above that would benefit from mandatory reporting in ARAs. HMT will make a final decision on this once the GGC25-30 guidance is finalised.

31. Consequently, we plan to update the SRG 2025-26 by:

- removing mandatory reporting (and guidance) on previous Greening Government Commitments (GGCs) and other outdated environmental policies (e.g., rural proofing),
- not incorporating the new GGC25-30 metrics, targets and commentary into the guidance for mandatory reporting (except for emissions reporting and certain key GGC metrics, to be confirmed once GGC 25-30 guidance is finalised).
- adding short general high-level guidance for reporting on metrics and targets for environmental and sustainability key performance indicators (KPIs) which are material to primary users.
- simplifying and consolidating existing sustainability reporting guidance for central government, for example, by fully incorporating the TCFD-aligned requirements

into the SRG25-26 and consolidating similar or overlapping requirements (e.g., climate adaptation, climate governance)

32. A potential risk with the recommended approach is that this could be seen to be criticising the GGCs or downplaying their importance, at the same time as an updated version is launched. However, this is not HMT's intention at all—the GGCs are a very important tool to help achieve government's objectives on sustainability. This approach only reflects that GGCs and ARA reporting are developed for two different purposes, and other methods of sustainability reporting are better fits for the specific ARA context as compared to GGC reporting. HMT remains supportive of the GGCs, and will work with stakeholders on how we can continue to place emphasis on GGC's outside of ARAs.

Wider developments

33. The thematic review also considered wider external developments in sustainability reporting guidance, both internationally and in the UK.

34. Generally, with the ongoing endorsement of IFRS's Sustainability Standards (IFRS Ss) in the UK private sector (Sustainability Reporting Standards (UK SRS),public consultation expected in summer 2025), and recent consultation on IPSASB's SRS1 Exposure Draft on Climate-related disclosure ('the IPSAS ED'), and wider international developments (European Commission, other frameworks) – the sustainability reporting landscape remains volatile and there is a lack of certainty over what the 'final' sustainability reporting requirements will look like in these contexts. Further detail is given in the below.

35. IFRS S1 (General Sustainability Disclosures) and IFRS S2 (Climate Disclosures) became effective on 1 January 2024, aligning with TCFD recommendations and incorporating referenced frameworks such as Sustainability Accounting Standards Board (SASB) Standards. Future IFRS S developments will focus on biodiversity, ecosystems, and human capital. However, challenges remain if these standards were to be implemented in the public sector, as IFRS standards prioritise enterprise value, overlooking broader policy levers such as fiscal and statutory measures. Additionally, their market-driven approach risks pre-empting policy decisions. While IFRS Sustainability Standards consolidate existing frameworks, new sustainability reporting frameworks (and international regulation) continue to emerge.

36. The UK SRSs aim to provide a consistent framework for sustainability disclosures across the UK economy. They are being developed to align with international standards (such as ISSB's IFRS S1 and S2) while considering UK-specific regulatory needs. The UK SRSs will guide companies and public sector entities in reporting climate-related and broader sustainability risks and opportunities, ensuring transparency, comparability, and decision-useful information for stakeholders. UK SRSs are still in development and it remains to be confirmed how they will adapt or interpret IFRS Ss for the UK context. A consultation is expected this year.

37. The EU Corporate Sustainability Reporting Directive (CSRD) came into effect on 1 January 2024, expanding sustainability reporting requirements for large and listed companies with a phased implementation: 2025 (large companies), 2026 (all large entities), and 2027 (listed SMEs). In 2025, the EU Commission plans to reform CSRD,

aiming to reduce reporting burdens by 25-35%, particularly for SMEs, by introducing fewer reporting requirements, redefined SME criteria, and less frequent disclosures (although exact reforms are still not confirmed). Not all EU member states have ratified the requirements, and there are differing views on implementation.

IPSASB Sustainability Reporting Standards Exposure Draft Climate-related Disclosures

38. HMT has formally responded to the IPSAS ED consultation – refer to Appendix A. The consultation response was circulated to the FRAB Sustainability Subcommittee (and other key stakeholders) for comment, with resulting feedback incorporated.

39. The IPSAS ED uses IFRS Ss as the main building block for disclosures related to own operations and overlays new disclosure requirements for Climate-related Public Policy Programmes (CR-PPPs). In its current form, the ED would be very challenging to implement in the UK public sector. The HMT response to the ED highlighted those challenges and suggested changes, with the main themes summarised as follows:

    - **Public sector adaptation** – The IPSAS ED relies too heavily on private sector frameworks without sufficient adaptation for government entities, where reporting focuses on environmental stewardship, service delivery and policy outcomes, rather than the focus on future cash flows or enterprise value in the private sector. The proposals should also be streamlined to prioritise material disclosures in the public sector context and improve usability.
    - **CR-PPP scope and greenwashing** – The current definition of CR-PPPs as '*those that have a primary objective to achieve climate-related outcomes'* is too narrow, leading to inconsistent disclosures and potential greenwashing. A broader, more robust definition is needed to ensure reliable reporting.
    - **Usability and report length** – The extensive disclosures in SRS1 risk making reports overly complex and burdensome. Climate-related disclosures should be concise, relevant, and integrated with broader public sector reporting to improve decision-usefulness and avoid unnecessary reporting strain.

Conclusion

40. When considering the wider developments in sustainability reporting and feedback from the thematic review outreach, HMT's conclusion is there is a case for change for going further than the existing SRG and TCFD requirements, but it is still too early to say this definitively, as this depends on the outcome of the ISSB, IPSASB and UK processes discussed above.

41. Furthermore, as TCFD represents an aligned but significant step forward in climate-related reporting, HMT remains of the view that incorporating TCFD-aligned disclosures remains a good first step for any further future reporting requirements.

42. HMT plans to continue to consider upcoming developments in sustainability reporting and take forward further work in this area. Specifically, HMT plans to:

    - continue to monitor external developments, particularly the UK SRS and IPASB's work in this area.
    - have further discussions with relevant authority representatives on sustainability reporting.

- convene a meeting with FRAB Sustainability Subcommittee members to provide an update on sustainability reporting and get views on proposals for any further sustainability reporting requirements in advance of bringing a paper to FRAB in November 2025. The invite to the FRAB-SSC meeting will be extended to the wider membership, should existing or new representatives wish to attend (or send a representative) for a more detailed discussion in advance of FRAB.
- consider governance arrangements on setting sustainability standards, including whether FRAB and the sustainability subcommittee remain the best avenue for oversight of this work.