HM Treasury

Appendix A: Sustainability reporting for the UK public sector

Concepts, Principles and Foundations

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Contents

Forword

Context

The appendix sets out the principles, concepts and foundations for sustainability reporting in central government, with considerations for the wider public sector.

It provides supplementary guidance on reporting sustainability-related information in entity-level annual reports and accounts. It is intended for use alongside the annual Sustainability Reporting Guidance (SRG) and the Task Force on Climate-related Financial Disclosures (TCFD) -aligned disclosure Application Guidance (TCFD Application Guidance).

The concepts and principles set out in this document, are consistent with the approach to performance reporting set out in the Government Financial Reporting Manual (FReM[1]). This approach reflects best practices, addresses the specific needs of the public sector, and is informed by the Strategic Report requirements in the Companies Act 2006.

Years of applicability

This new document applies from the 2025-26 reporting period - until an updated version of the guidance is published.

Mandatory and advisory elements

This document includes both mandatory and advisory elements, using consistent terminology as defined in the table. These definitions are intended solely for this guidance and should not be applied more widely unless explicitly directed.

Term	Intention
shall	denotes a requirement: a mandatory element.
should	denotes a recommendation: an advisory element.
may	denotes approval.
might	denotes a possibility.
can	denotes both capability and possibility.
is/are	denotes a description.

[1] Annually, HM Treasury publishes the FReM: www.gov.uk/government/collections/government-financial-reporting-manual-frem

Concepts

1.1 The core concepts of sustainability reporting - materiality, primary users, reporting boundaries and value chain impacts - guide what is reported and help ensure disclosures reflect the organisation's most significant risks, opportunities and impacts.

Materiality and users

1.2 Information is material if omitting, misstating, or obscuring it could reasonably influence decisions of primary users of annual reports and accounts. Reporting entities should disclose material financial and non-financial information needed to understand their performance and accountability, and avoid excessive immaterial content unless required as a minimum reporting requirement.

Primary users

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

1.4 For central government Parliament is the primary user, with growing levels of interest on sustainability, the environment and climate via committees, Commons debates, and parliamentary questions. Central government bodies should take this into account when considering whether information for the sustainability-related topic is material.

1.5 Similarly, there has been an increased interest from the public and other stakeholders. Relevant authorities across the public sector require material information in annual reports; however, the determination of who constitutes a primary user may vary. Separate reporting channels may also impact judgements on what information to include in the annual report.

1.6 Where an entity's operations, financial planning or strategy are significantly impacted by sustainability topics - including climate change or the transition to net zero, and/or these topics represent a principal risk (or significant component of a principal risk) for the organisation, related 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 or sustainability, then there is likely to be an impact on the organisation's wider strategy, and thus the related information is likely to be material.

Materiality assessments

1.7 A materiality filter is used to determine which information – financial, performance or sustainability-related - is significant enough to be disclosed, based on its potential to influence the decisions of primary users. This can be helpful in guiding annual report preparers on the inclusion of information - ensuring reports are neither too brief nor excessively detailed. Reporting entities should apply judgement to determine the appropriate level of detail.

1.8 Materiality assessments of sustainability-related information should be consistent with the materiality assessment of other topics and information included in an entity's annual report and accounts. This in turn can help establish exposures and vulnerabilities to sustainability-related issues, and/or whether these constitute a principal risk, or significant component of a principal risk, for the organisation.

1.9 Engaging with stakeholders is a critical component of the materiality assessment process. Stakeholders - including Parliament - can provide valuable insights into which sustainability issues are most relevant and significant. Reporting entities should consider both internal and external stakeholders when determining the material topics and appropriate reporting boundaries. This engagement helps ensure that disclosures reflect the interests and concerns of those affected by, or who can affect, the entity's activities, thereby enhancing the relevance and credibility of sustainability information.

1.10 Reporting entities should disclose whether information is used by those charged with governance in their role, to support users to understand management decisions.

Non-financial information

Principal – applies to risks and uncertainties

To the extent necessary for an understanding of – applies to trends, factors, and non-financial information

Key – applies to key performance indicators (KPIs)

1.11 Terms like 'key' in Key Performance Indicators (KPIs), and 'principal' in risks, refer to information that is, or ought to be, material to understanding the development, performance, position, or future prospects of the organisation. These are typically the risks and performance measures reviewed by senior leadership or the accounting officer. KPIs and principal risks are covered later in this document.

1.12 Reporting entities should avoid applying a checklist approach to materiality. Irrelevant or superfluous information which is either common knowledge or fails to add value to the primary user's understanding of the organisation reduces the annual report's effectiveness.

Financial information

1.13 Reporting entities may use financial materiality applied to the accounts in considering whether financial information is material. Organisations must consider the importance of the narrative information to primary users when assessing whether to include climate-related information. Primary users are interested in how and why public funds are spent.

Time periods and baselines

Reporting periods

1.14 To ensure consistency, all sustainability information shall align with the financial reporting period (1 April to 31 March) for information related to own operations (unless exceptional circumstances apply).

1.15 Information from policy teams or along the value chain may not follow the same timeframe - for example, UK Strategic Carbon Budgets use calendar years, and Scope 3 reporting may reflect embodied carbon.

1.16 Where an entity uses data from a different reporting period, this shall be clearly explained, with the relevant time period clearly stated, and the most recent available data provided.

Prior years

1.17 Reporting entities shall include prior year sustainability data (e.g., three to five years as reported information becomes available) to provide a historical perspective of performance.

Baselines

1.18 Baselining establishes a reference point against which progress can be measured over time and targets can be assessed. Where a base year is used as a basis of performance monitoring, the base year data should be updated and reported in line with changes in accounting policies and boundaries. Where material changes occur, prior-year figures should be updated and explained.

1.19 Reporting entities shall make clear which years have been set as the baseline.

1.20 Where possible, the organisation should also compare performance against other benchmarks such as similar organisations. Where external cross-sector frameworks (e.g., Greening Government Commitments (GGCs) for central government) are being used, the same baseline year should generally be applied for comparability.

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

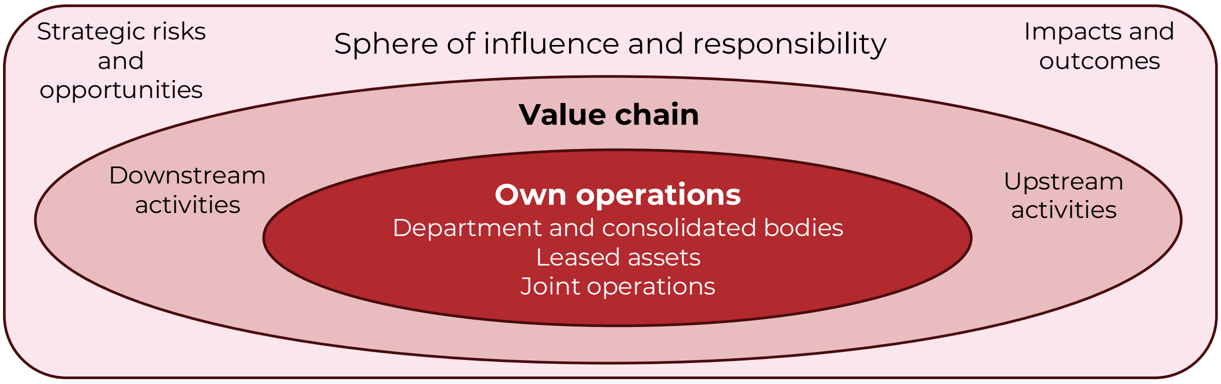
Re-baselining

1.22 Where organisations undergo strategic restructuring, disclose previously omitted non-financial reporting data, or change the accounting policy or boundary, there could be a material impact on the way sustainability-related information is reported, or on the method of calculation. These shall be brought to the attention of the reader in the narrative, on the organisation's website or similar. Under these circumstances, organisations shall state and explain their policy for re-baselining any reported information

Reporting boundaries

1.23 Reporting boundaries define the scope of information to include in an annual report impacting which organisation reports information and what information is reported (i.e., allocation).

1.24 When considering what information to include in the sustainability report, it is important to consider the various reporting boundaries and lenses of information – some extending beyond the typical financial reporting boundary.



1.25 Boundaries for information included in the performance report are often broader and less clearly defined than those used in accounts. Performance reports often cover wider, outward-facing matters such as strategic objectives, risks, and outcomes.

1.26 Public bodies operate in the public interest and often have broad responsibilities across society, the environment, and the economy. These responsibilities may be set out in policy, regulation, or statute - or may be implicit in their function. Entities should consider both how sustainability issues affect the entity and how the entity's activities impact the environment and society, and report on both aspects where material.

Own operations

1.27 An entity's own operational boundary typically includes the assets on their balance sheet and their operations. This aims to match, in principle, the entity's financial reporting boundary, in line with IFRS Accounting Standards adapted and interpreted in the FReM. This provides comparability and in turn supports transparency and accountability.

1.28 Financial reporting principles establish whether assets and liabilities are included in the Statement of Financial Position and in turn help set out the sustainability reporting boundaries for different sustainability scopes (e.g., using financial control for allocating emissions Scope 1, 2 and 3). The Statement of Comprehensive Net Expenditure covers the organisation's operations. Aligning sustainability boundaries with financial reporting boundaries will, in most cases, result in reporting for all areas for which the organisation has direct control.

1.29 Where the operational boundaries used for sustainability information differ from the financial reporting boundaries, an explanation shall be provided, noting that different boundaries may have been explicitly permitted or required by the relevant authority. For example, NHS bodies reporting under NHS England, and DfE reporting on behalf of Schools.

Connectivity with existing performance reporting

1.30 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 sustainability and climate-related risks, opportunities and impacts.

1.31 Climate change and sustainability may impact a policy setter or regulator's strategy – including the effectiveness and outcomes of the body's policies and programmes. Climate-related issues should be considered in the context of existing performance reporting, and their impact on the organisation's wider goals and objectives.

1.32 While useful to consider, information across own operations, the value chain and wider spheres of influence/responsibility is often not directly comparable.

Value Chain

1.33 Sustainability-related performance within a reporting entity's own operations is typically under its control and used by those charged with governance to assess management's performance. In contrast, value chain performance is less directly controlled and not easily comparable to internal operations—though it may still provide useful insights for primary users.

1.34 Further information on materiality and other considerations when measuring and reporting Scope 3 value chain greenhouse gas (GHG) emissions is included in Chapter 2 of the Sustainability Reporting Guidance.

Sphere of influence and responsibility

1.35 Organisations should consider the wider impact of climate on their broader responsibilities, as well as their strategic objectives and priority outcomes.

1.36 Government and public sector bodies may have powers (e.g., fiscal, legislative, regulatory, etc.) to influence the wider ecosystem in which they operate. Primary users of public sector annual reports will be interested in broader information, extending to the impact of the organisation on the UK economy, the public and the environment.

1.37 Consequently, while this guidance is intended for entity-level disclosures, organisations must consider external sustainability 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.).

1.38 Disclosure is likely to develop over successive iterations, as the organisation's understanding on these topics deepens.

1.39 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, this information shall be disclosed in the annual report (on a comply or explain basis) applying appropriate cross-referencing.

1.40 For performance reporting, the Chartered Institute of Public Finance and Accountancy (CIPFA)[2] set out an example approach for considering the components of 'materiality' for public sector organisations, which may be useful:

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

1.41 Sustainability reporting should reflect the principle of stewardship, demonstrating how the entity manages resources and risks to create value over the long term. Entities should disclose how their activities contribute to sustainable outcomes and support the long-term interests of Parliament, the public, and other stakeholders.

Useful, relevant and high quality information

Consistent and comparable

1.42 The top level of organisations (generally departments) should communicate clear accounting treatments or policy for sustainability areas where discretion is given. The key is ensuring that treatments are consistent within organisations and from year-to-year so that trends can be easily recognised and understood.

1.43 Where inconsistencies within accounting boundaries or between different years exist, reporting entities are required to explain this. This should, however, not detract from improvements in data provision. The key is to ensure that the reader is clear on what is being reported, what is missing, and what future plans exist for developing the information.

Selective and focused

1.44 Reported information should focus on a relatively small number of items that are genuinely significant. For example, disclosing principal risks should not

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

result in a full list of all possible risks; nor should disclosures include every internal metric in use. Instead, reporting should focus on the few that are most material and meaningful.

1.45 Preparers should begin by assessing whether sustainability topics are material to the organisation's objectives, delivery or long-term resilience. If it is, then the level of detail disclosed should be proportionate, useful, and aligned with the nature and impact of the matter.

1.46 The emphasis should remain on information that is material to an understanding of the organisation's development, performance, and sustainability - particularly at the group or departmental level, where consolidated reporting applies.

1.47 Materiality cannot, however, be used to omit disclosures that are explicitly required by law or regulation - unless the legal provision itself permits such a judgement.

Group reporting considerations

1.48 Sustainability and climate-related information should provide a holistic view across a group, considering the not only the operations but also its principal sustainability and 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.

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

Consolidated metrics and targets

1.50 Where disclosure requirements are quantitative in nature (e.g., metrics and targets, impacts of climate on financial planning, performance and position, etc.), the default position is for the reporting boundary to be set at an entity level - aligning with the operational boundaries used in financial reporting.

1.51 However, where climate and sustainability policies and targets are set and managed at a group level, the associated metrics may (and often should) also be 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 (e.g., for future funding).

1.52 Where existing reporting frameworks consolidate information and use estimates based on group level data, entity-level reporting may not be feasible. For example, NHS England provide emissions estimates for the NHS in England. Disaggregating information, where appropriate/possible, and signposting to external reports supports users to understand performance.

1.53 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.

Group reporting with out-of-scope bodies

1.54 De minimis thresholds in sustainability reporting remove mandatory minimum requirements for smaller ALBs. However, these small entities are still required to assess whether material sustainability or climate-related information exists in their specific context. Group entities may be included in other data collection returns under different frameworks (e.g. GGCs apply lower thresholds based on FTEs or floor space).

1.55 Entities preparing consolidated reports should assess the materiality of excluded subsidiaries and, where necessary, implement data collection procedures to address material gaps.

1.56 It is helpful to distinguish sustainability information from a department's own operations and that of other entities in the group. Reporting should clearly state which bodies are included or excluded, note any non-compliance with minimum requirements, and explain how material gaps will be addressed in future reporting periods.

Shared services and facilities including multiple occupancy sites

1.57 Where a reporting entity shares a service or a facility with another organisation, reporting entities must consider how shared sustainability data should be allocated in relation to the different accounting boundaries.

1.58 Where two or more public sector organisations are involved, the method should be jointly agreed for consistency, and clearly documented for audit purposes. This is particularly important for bodies within the same departmental group.

1.59 Where the impact between the different organisations is material, steps should be taken to ensure that actual consumption can be measured for each organisation and costs properly attributed.

1.60 Central government bodies shall allocate sustainability metrics related to their estate based on occupancy[3], in line with the reporting boundaries in annual reports and accounts explaining any non-compliance. This may require reporting entities to obtain additional data from other occupiers or landlords.

1.61 The non-financial data reported may be set on a different basis than the financial data (e.g., electricity consumption, where electricity is re-charged). In such circumstances, reporting entities needs to consider the best form of reporting to provide transparency.

[3] While the GGCs provide specific allocation for multiple occupancy sites these often do not align with the operational boundaries in annual reports and accounts.

Performance measures and strategy

Performance improvement and measurement

1.62 Effective performance metrics should follow four key principles to support clear, meaningful, and accountable reporting[4]:

- **Aligned to strategy** – metrics should reflect the organisation's strategic objectives, helping users understand progress against key goals.
- **Transparent** – metrics must be clearly defined, with explanations of how they are calculated, why they were selected, and any changes over time.
- **In context** – performance should be presented alongside relevant context such as targets, trends, or benchmarks, with commentary to aid interpretation.
- **Reliable and consistent** – metrics should be based on robust data and applied consistently to allow for comparability over time.

1.63 Applying these principles helps ensure that reported information is relevant, understandable, and useful for decision-makers and stakeholders.

1.64 This guidance does not cover advice on the setting of performance measures, commitments, or targets. Some public sector organisations already have sustainability measures which they are mandated to report against. For example, the NHS has published its own Green Plans and offers the Sustainable Development Assessment Tool (SDAT)[5] which aligns with the UN Sustainable Development Goals. Central government bodies apply metrics and targets set out in the Greening Government Commitments (GGCs).

Key Performance Indicators

1.65 Defra issued Environmental key performance indicators (KPIs): Reporting guidelines for UK business ('Environmental KPI Guidelines') to help the private and public sector identify and set suitable measures.

1.66 Where sustainability, environmental, or climate-related targets or KPIs have been set - and are material to the primary user or are a minimum requirements - performance against them shall be reported, with clear commentary on whether performance is improving or deteriorating. If performance has already been published elsewhere, an overview of performance with a link to the details is acceptable.

Context for comparability

1.67 For climate and environmental based performance measures it is also important to take account of the size of the organisation. Using intensity metrics and ratios (e.g., per FTE, per m^2 of floor space) can provide reported figures with context and enhance comparability.

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[4] These principles have been drawn from the FRC's guide on Performance Metrics 2018

[5] Green Plans replace SDMP (2018) in Jan 2020 SDAT, which tracks internal metrics and targets, replaces Good Corporate Citizenship (2008) in 2017. Both were developed by the Sustainable Development Unit.

Strategy, strategic objectives and targets

Strategic objectives and targets

1.68 Reporting entities shall also report on progress against relevant and material strategic objectives, policies, or targets - at entity, departmental, or government level - including climate policies, sustainability enablers, and group-wide targets. Reports should state the target, baseline, current and past performance, and consider both direct and indirect impacts.

Statements and public policy commitments

1.69 Reporting entities should refrain from providing generic sustainability statements and shall instead present annual report users with a fair and balanced view of their past performance, current position, and future outlook – based on the reporting entities context.

1.70 Reporting entities 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.

1.71 Reporting entities should provide clear explanations which help annual report users to understand and compare major commitments such as 'net zero emissions' targets or 'Paris aligned' strategies, including which activities and emissions are included in the scope of these commitments. It should be clear whether these are aspirational, or currently pursued and factored into budgets and business plans used when preparing the financial statements.

Principal risks and related reporting

1.72 This section draws from existing risk reporting guidance 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. This principal also applies for other sustainability-related risks.

1.73 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

1.74 For risk assessments, organisations should consider the potential impact and probability of the related events, and the timescale over which they may occur[6].

Principal risk

1.75 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

[6] Section D4 and Footnote 2 of the Orange Book

definition is based on the FRC guidance[7], which in turn has been used to supplement this section.

1.76 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[1].

1.77 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.

Emerging risk

1.78 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.

1.79 Emerging risks regularly change, can materialise quickly, and can significantly affect the organisation and its operations. Procedures should be in place for continuous monitoring of these risks to allow the organisation to adapt or develop appropriate actions.

Risk reporting

1.80 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[8].

1.81 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 (e.g., a description of the circumstances under which the risk might be most relevant).

1.82 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.

1.83 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.

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[7] 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.

[8] 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.

1.84 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 risks

1.85 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

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

1.87 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.

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

Principles

2.1 The principles supporting high-quality annual reporting are accountability, transparency, accessibility and understandability. The FReM requires performance reporting – including on sustainability - to be fair, balanced and understandable (i.e., highlighting both good and bad performance in a clear way).

2.2 The purpose of government annual reports and accounts[9] is:

- **Parliamentary accountability** – enabling the House of Commons to maintain control over public spending and hold the government to account.
- **Public and stakeholder understanding** – supporting transparency, scrutiny, and assessment of value for money by the public, Parliament, and civil society.
- **Reliability** – providing a credible and accurate record of public finances.
- **Internal decision-making** – equipping ministers and officials with the information needed to manage departments and agencies effectively.

Accountability and transparency

Comparability

2.3 Comparability is a key principle of sustainability reporting. Disclosures should enable users to compare information both over time (year-on-year) and across entities within central government.

2.4 Compliance with the minimum environmental and climate-related reporting measures sets a common baseline, driving consistency and comparability, and ensure statutory responsibilities for transparency (e.g., on GHG emissions) are met.

Format and structure

2.5 Integrated annual reports, which include both performance and financial information, encourage better financial management[10]. However, there is no prescribed format or structure for climate and sustainability reporting.

2.6 Reporting entities should develop their own format and structure to fit their organisation. Through integrated reporting, entities need to demonstrate how sustainability considerations are embedded throughout the organisation, its operations, and its strategy. The reporting format shall include all minimum

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[9] The Accounting for Democracy reports set out four key purposes of government financial reporting, which PACAC recommended the Treasury adopt as guiding principles. Further details are included in The Government Financial Reporting Review 2019.

[10] Review of Financial Management in Government 2013

reporting requirements - including nil returns (except for offsets which only need to be reported where relevant).

Information location

2.7 Explanations, cross-referencing within the annual report and accounts and signposting to external reports should be used to support users to navigate to and from relevant information.

Position

2.8 Sustainability reporting forms a component of the performance analysis – refer to Chapter 5 of the FReM.

2.9 The climate and sustainability shall be included 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.

2.10 Reporting entities may also choose to include related-information elsewhere - either by making use of cross-referencing or signposting – addressed later in this section.

Interactions with other reporting frameworks

2.11 A variety of different reporting frameworks exist across the UK public sector. This guidance has been designed to complement and enable alignment with existing climate - and sustainability-related reporting frameworks.

2.12 Applying this guidance does not override existing reporting requirements 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.

2.13 Where an entity utilises existing information to fulfil sustainability and climate-related 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

2.14 Where existing information (in annual reports) aligns closely with the climate and sustainability reporting requirements, reporting entities should apply judgement in deciding whether the requirement has already been met - cross-referencing to existing elements of the annual report as appropriate (e.g., content in the Corporate Governance Report may support disclosures for TCFD Governance related disclosures). Concise reports, which focus on the needs of the primary user and avoid unnecessary or duplicative information, improve overall effectiveness.

2.15 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[11].

Signposting to external reports and publications

2.16 Where separate reporting channels for climate and sustainability data exist, these often support performance assessments. Key measures from these channels should be included in the annual report, unless directed otherwise by a relevant authority (e.g., DHSC's GAM on emissions information).

2.17 The performance report acts as the top layer of information for users. Some users may, however, want a greater level of detail.

2.18 If relevant (but no integral) information is covered in external reports, entities need not duplicate and may instead signpost accordingly. This approach is beneficial where entities prepare additional reports for specific purposes (e.g., officer responsibilities, annual reports and accounts for funds), provided all relevant material information is addressed.

2.19 Signposting allows users to access supplementary information without overloading the report. However, it should be clear that such signposted content is separate from the main report component, and that excessive signposting may reduce clarity.

Comply or explain

2.20 All reporting entities (above the de minimis threshold) shall comply with minimum reporting requirements. For material topics or information, all reporting entities shall comply or explain instances of non-compliance.

2.21 Where data is unavailable or disclosure is impractical, due to legal or regulatory constraints, commercial sensitivity, significant uncertainty, or other limitations, the reporting entity shall explain the gap, the reason for non-disclosure, and any plans to address this in future reporting periods.

2.22 Some sustainability topics may be material to the organisation, even where no minimum requirement applies. In such cases, entities should still consider whether disclosure is necessary to meet user needs. However, where an entity chooses to report voluntarily against this guidance, it is not required to explain non-compliance with recommended disclosures.

2.23 Public sector bodies may face practical barriers to full compliance, such as limited resources, expertise, capacity, or data availability. These challenges should be balanced with the principles set out in Managing Public Money (MPM[12]), including value for money. If cost is cited as a reason for non-compliance, the explanation should set out why meeting a particular requirement would not represent value for money, with reference to that specific requirement—not the framework as a whole.

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11 FRC 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/

12 HM Treasury's MPM https://www.gov.uk/government/publications/managing-public-money

2.24 In all cases, explanations of non-compliance shall provide sufficient detail to support understanding and maintain accountability. Where an annual report uses a Compliance Statement or Summary (required in the TCFD Application Guidance) should extend to minimum requirements and material information for sustainability reporting.

2.25 This section may also be used to provide wider context on climate-related disclosures—such as uncertainty in assumptions, interlinkages with other sections of the annual report, or differences between qualitative and quantitative information.

Omissions, errors and materiality

Availability of underlying data: material omissions and use of estimates

2.26 Where information is not available to populate the minimum reporting requirements, estimates should be used and explained.

2.27 The methodology for estimates will be left to the discretion of the reporting entity to ensure that it is able to use that which is most appropriate. Further guidance on estimating usage is included in the ERG.

2.28 Where a robust estimate cannot be calculated, and this results in a material omission, the entity shall provide an explanatory note, including what plans are in place to improve data collection.

Amending prior-period figures

2.29 There may be changes that have a material impact on the way information is reported (e.g., Machinery of Government changes). When these changes happen, prior-year figures shall be re-stated, where data is available, using the new policy or boundary for comparative purposes. Generally, the assessment of materiality is a matter of accounting judgement rather than policy. Consequently, in the first instance, advice should be sought from accounting colleagues.

2.30 Where errors or omissions result in a material change to previously published figures, prior-year data shall be restated in the annual report and accounts with a clear explanation.

2.31 The materiality concept should be applied only to support a fair presentation of information, not to justify omitting required disclosures. Where data is incomplete, the issue should be noted in the narrative, with a link to further detail (e.g., on the organisation’s website).

Foundations

3.1 The prerequisites of high quality sustainability reporting are clear governance, defined responsibilities, robust data, and alignment with strategy—ensure reporting is embedded, reliable and meaningful.

Reliance, scrutiny and audit

Information provided by third parties

3.2 Reporting entities are often dependent on third parties to provide the required data and information for sustainability reporting (e.g., landlords for leased property, refuse contractors for waste, utility suppliers for reporting finite resource use and travel providers and agenda for carbon travel data).

3.3 Where using such information, reporting entities must ensure that it has been calculated in accordance with this guidance. They must also ensure that it is of sufficient quality to meet any audit requirements. Where third-party data quality is uncertain, entities should disclose limitations and outline steps to improve data quality in future reporting periods.

3.4 Information from outside the entity's control - such as that relating to the value chain or wider sphere of influence - may be less granular or accurate. Where this introduces estimation uncertainty, bodies should clearly disclose the basis of estimation, consider providing sensitivity analysis where feasible, and use accessible analogies (e.g. comparing embodied carbon to capital spend) to support user understanding.

3.5 For large contracting organisations, the capture of sustainability information may present difficulties. Where gaps in information exist as a result, these shall be recognised and explained alongside any proposals for bridging the gap in future (e.g., conditions in contracts in future procurement).

Scrutiny and audit

Internal contract and assurance

3.6 Whilst external assurance and verification of reported figures is not required, there should be internal audit and scrutiny arrangements in place to ensure senior management are provided with high quality financial and non-financial data.

3.7 These internal arrangements may include data policies and procedures aligned with the minimum requirements and applied in practice; systems that ensure data quality by limiting manual input and data sources; skilled staff; and strong internal controls and validation. Internal assurance arrangements are addressed in the Governance Statement of the annual report and accounts.

3.8 The accountable officer (i.e., the 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.

External audit

3.9 As sustainability and TCFD-aligned disclosures are within the annual report, they are within the scope of the auditor's opinion on 'other information'. Under auditing standards[13], 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.

3.10 The sustainability and 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 sustainability and TCFD information. However, the National Audit Office does maintain interest in sustainability topics and may report on them as part of their value for money audit work.

3.11 External auditors will report by exception where sustainability information contained in the annual report and accounts is inconsistent with the information they have obtained as part of their audit of the financial statements.

Capacity building and continuous improvement

3.12 Entities should prioritise ongoing capacity building to strengthen skills, systems, and processes for sustainability reporting. Continuous improvement in data quality and reporting practices supports more accurate, reliable, and decision-useful disclosures over time.

Financial reporting considerations

Accounting implication of sustainability-related topics

3.13 This document focusses on sustainability reporting and does not consider the financial reporting implications of climate change and sustainability. Preparers of financial reports should assess the financial impact on their accounts. Whilst International Financial Reporting Standards (IFRS) Accounting Standards do not address specific topics; they provide the framework for incorporating general risks - including on climate and sustainability - into financial reporting.

3.14 The IFRS Foundation has issued guidance on their interpretation of climate-related disclosure for financial reporting – including an article (published November 2019) on how IFRS Standards support a principle-based approach to disclosing financial risks across different themes, and educational material (republished July 2023) highlighting how existing IFRS Accounting Standards requirements require organisations to consider climate-related matters when their effect is material.

[13] Under ISA 720, the auditor provides a negative opinion on the other information.

HM Treasury contacts

This document can be downloaded from www.gov.uk

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