Task Force on Climate-related Financial Disclosure (TCFD) – A phased approach for the public sector

Sustainability Reporting

May 2024

What are the requirements and why are they being introduced?

Over the years, the TCFD recommendations have provided an effective set of guidelines for organisations to understand, analyse and ultimately disclose climate-related financial information.

The TCFD recommendations have been adopted by listed and private corporations, financial institutions, and regulatory bodies; and recently they have become the foundation for the IFRS Sustainability Disclosure Standard on Climate (S2) issued by the International Sustainability Standards Board (ISSB).

With this success in mind, HM Treasury is phasing-in TCFD based ‘comply or explain' requirements for public sector organisations. These requirements aim to improve the quality and breadth of climate-related information in public sector annual reports and help align climate-related reporting with the private sector. HM Treasury has published application guidance to describe phase 1 and phase 2 of the reporting requirements.[1]

Who is in scope?

- All central government departments (ministerial and non-ministerial)
- Arm’s-length bodies (ALBs) where they have:
  - more than 500 Full Time Equivalent (FTE) staff averaged across the reporting period; or,
  - total operating income and funding received (including grant-in-aid) exceeding £500m; or,
  - been instructed by their sponsoring department to follow this guidance.

Public sector bodies that are out of scope but operate in significantly impacted sectors such as financial services, energy, transportation, buildings, and agriculture are strongly encouraged to voluntarily adopt the guidance. Similarly, where an entity’s policy or regulatory remit is related to climate change, they should also consider disclosures for the needs of their annual report users.

What are the disclosure requirements?

The disclosure requirements in the application guidance are aligned to the four pillars and 11 recommended disclosures of the TCFD recommendations featured around Governance, Risk Management, Strategy and Metrics and Targets.

The Governance pillar focuses on Board oversight and management’s role in assessing and managing climate-related risks and opportunities, while risk management focusses on the processes for identifying and managing those risks and opportunities and integrating them into the organisations overall risk management framework.

The strategy pillar deep dives into the climate-related risks and opportunities across time horizons, the financial impacts of these risks and opportunities and the resilience of the organisation’s strategy under different climate scenarios. The fourth pillar focuses on setting metrics and targets in relation to the identified risks and opportunities, with a particular mention of greenhouse gas (GHG) emissions.

The application guidance includes further interpretations and adaptations for applying the TCFD framework in a public sector context.

A phased-in approach

HM Treasury proposes a phased implementation to ensure effective and manageable integration into existing reporting practices.

		Current application guidance		Future application guidance
		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	**Compliance statement and general principles**	Yes	Yes	Yes
	Governance	All recommended disclosures	All recommended disclosures	All recommended disclosures
	Risk management	X	All recommended disclosures	All recommended disclosures
	Metrics and Targets	Where available, Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks	All recommended disclosures	All recommended disclosures
	Strategy	X	x	All recommended disclosures

[1] Task Force on Climate-related Financial Disclosure (TCFD) -aligned disclosure application guidance - Phase 1 and Phase 2 - GOV.UK (www.gov.uk)

[2] Reporting entities adhering to the Department of Health and Social Care Group Accounting Manual (DHSC GAM) are not required to include a TCFD Compliance Statement.

Commonly asked questions

Q1 What are the minimum reporting requirements for in-scope entities?

All in-scope entities need to report on disclosures which are not subject to a materiality assessment and assess whether climate is a principal risk to their operational model. For entities where climate is deemed to be a principal risk, they need to describe the risk and report on disclosures that are subject to a materiality assessment. All in-scope entities also need to prepare a compliance statement and explain any non-compliance and plans for future disclosures.

Q2 Do the requirements apply to the wider public sector?

While the guidance does not automatically apply to the wider public sector bodies such as local government, NHS bodies, public corporations, and entities in the devolved administrations, these bodies may be directed by the relevant authorities to follow or adapt it to their needs.

Q3 Do public sector bodies need to consider all climate-related financial physical and transition risks as outlined in the TCFD recommendations and guidance?

Not all of TCFD's guidance or examples are relevant to, or can be applied by, public sector bodies and discretion must be used to determine which are relevant in their own context. Public sector bodies may face additional climate-related related risks in connection with policy leadership, value for money, accountability, and coordination and delivery which they may also wish to consider and report.

Where specialist expertise might be needed

1. **Gap assessments:** Assessing what you have done to date including any existing climate-related disclosures and ensuring that you close the gaps.
2. **Disclosure preparation:** Drafting your disclosures and compliance statement.
3. **Quantitative and qualitative scenario analysis:** Identifying and quantifying climate-related risks and opportunities under different climate scenarios.
4. **GHG emissions accounting:** Calculating your scope 1, 2 and 3 GHG emissions in accordance with the GHG protocol.
5. **Target setting and decarbonisation:** Setting emission reduction and net-zero targets and thinking through decarbonisation levers to meet your goals.
6. **Integrating climate into financial statements:** Considering the impact of climate on your balance sheet, for example assets that may be impacted by climate-related risks and opportunities could be subject to impairment charges.
7. **Organisational training:** Presenting to senior stakeholders the requirements and what the impact of those reporting requirements are for your organisation.
8. **Assurance readiness and independent assurance:** Assessing the current state of your sustainability data quality and reporting methodology (including processes and controls) or seeking a limited or reasonable assurance opinion under ISAE 3000 over GHG emissions disclosures (Scope 1,2 and 3 emissions) and other non-financial reporting and disclosures.

Contact us

We understand that there is not a "one-size fits all" approach to climate-related financial disclosures and can support you to move from your current status towards the phased implementation. Talk to our sustainability reporting and consulting experts:

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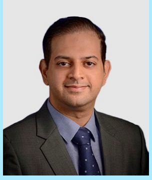

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