



CLIMATE-RELATED DISCLOSURES IN PUBLIC SECTOR ANNUAL REPORTS

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ICAEW welcomes the opportunity to submit evidence to the public consultation on HM Treasury's Phase 2 Exposure Draft for Task Force on Climate-related Financial Disclosure (TCFD) dated 19 December 2023, details of which are available from this [link](#).

ICAEW supports the adoption of the TCFD framework in public sector annual reports

- Climate change is a major risk for businesses, individuals and government alike.
- Using a recognised reporting framework will facilitate better reporting by public bodies.
- TCFD will aid consistency across the public sector in how climate risks are disclosed.
- We support the comply or explain approach, subject to common base-level disclosures.
- Clarity is needed on the framework for reporting greenhouse gas emissions.

This should be a step on the way to adopting wider nature-related financial disclosures

- The environment is key to a well-functioning economy and to citizen health and well-being.
- Reporting is needed on international commitments to reverse biodiversity loss by 2030.
- Reporting on natural capital should be encouraged for those entities it particularly relates to such as the Environment Agency. HM Treasury should support those entities wishing to adopt nature-based reporting frameworks on a voluntary basis.

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This response has been prepared by ICAEW's Public Sector team, part of Reputation and Influence, in consultation with ICAEW's Public Sector Advisory Group. ICAEW's Public Sector team supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 12,000 in ICAEW's Public Sector Community. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.

For questions on this submission please contact our Public Sector team at representations@icaew.com quoting REP 22/24

KEY POINTS

We support the adoption of the TCFD framework in public sector annual reports

1. Climate change is a major risk for businesses, individuals and government alike and using a recognised reporting framework will facilitate better reporting by public bodies. We also believe that TCFD will aid with consistency across the public sector in how climate risks are disclosed.
2. We support the use of the comply or explain approach, which we believe will assist preparers in providing relevant and useful disclosures, avoid the use of boiler-plate language that helps no one, and provide clarity where public bodies have been unable to, or do not wish to, disclose particular information concerning their impact on the climate or the risks they face.
3. We hope that TCFD will also be adopted in local as well as central government, and hence will encourage CIPFA-LASAAC to incorporate this guidance into the Code of Practice for Local Authority Accounting in due course. We also support the adoption of TCFD by NHS bodies, public corporations, and entities in the devolved administrations.

Base-level disclosures

4. We believe it is important that there is a common base-level of disclosure that enables readers to understand the key climate risks facing public bodies, as well as support cross-public sector analysis and consolidated reporting in the Whole of Government Accounts.
5. For reporting entities that have climate change as a principal risk, the requirements are clear. However, if climate change is not considered to be a principal risk for the public body, the requirements are less clear.
6. For example, should entities disclose how climate risks are identified, assessed and managed even if such risks are believed not to be material? We think there could be a clearer indication in the exposure draft of the base-level information that all entities should provide. It is our expectation that disclosures on governance and risk management will always be material as these processes are needed in order to determine what other information on climate change is material to the entity.

Interaction of TCFD framework with existing sustainability reporting requirements

7. There are currently two sets of guidance for sustainability reporting by central government entities. There are the Greening Government Commitments (GGC) owned by Defra and the Sustainability Reporting Guidance (SRG) owned by HMT. Unfortunately, neither is aligned to Greenhouse Gas (GHG) emissions reporting.

8. The TCFD framework supports the GHG Protocol framework to measure scope 1, 2 and 3 emissions which is also supported by HMT's SRG guidance. However, GGC are silent on the matter and do not mandate the GHG Protocol.
9. There are further differences in the reporting boundaries as stated in paragraph 5.37 which, when combined with the divergence in measurement methodology of emissions, could cause problems when aggregating the data (for WGA for example) and for comparability.
10. We do not know the extent to which entities have adopted an alternative approach to measuring GHG emissions other than the GHG Protocol but we would urge HMT to work with Defra to align scope, boundaries and measurement techniques.

Linkages to the FReM

11. The Government's Financial Reporting Manual (FReM) is familiar guidance for all central government entities and their arm's length bodies. It contains useful guidance around materiality and location of where certain information should be reported, much of it based on the Companies Act, adapted for the public sector.
12. Whilst the TCFD guidance does make some references to the FReM, these could be more specific and should include references to chapter and/or paragraphs wherever possible. We would also encourage the FReM to include references to the TCFD framework in future editions.

Beyond TCFD

13. Sustainability reporting is much wider than just climate and whilst we support the adoption of the TCFD framework, consideration should be given to how wider sustainability matters will be reported on in the public sector.
14. The ISSB is likely to commence a project on biodiversity, ecosystems and ecosystem services which HM Treasury should follow closely. We believe that public sector entities who have a direct responsibility for the natural environment should be encouraged and supported to make nature-based disclosures on a voluntary basis.

ANSWERS TO CONSULTATION QUESTIONS

Question 1

Is the guidance on 'Primary users and materiality' sufficiently clear? Does the guidance on materiality and broader considerations adequately set out the boundary considerations for disclosure? If not, what further detail should be added?

15. We believe that with some additional minor updates, the guidance on 'Primary users and materiality' could be improved.
16. The TCFD framework is principles based and the reporting entity will need to apply judgement regarding its application to ensure that the reporting outcomes are relevant and decision useful to the primary user of the annual report and accounts.
17. Applying materiality will be extremely important to determine what to disclose. A number of TCFD disclosures are required even if climate risk is not deemed to be a principal risk to the organisation.
18. We believe that the guidance could be improved by:
 - Articulating more clearly the relationship between the TCFD guidance and the Government Financial Reporting Manual (FReM);
 - Creating a table to show which disclosure requirements are subject to materiality assessment and which ones are not.
 - Changing the location and updating figure 1.1 - Overview of the TCFD framework, 1.2 - Flowchart for applying this guidance and 1.3 - Summary of disclosure requirements.

19. The FReM contains useful guidance on the application of materiality, where items need to be reported and on the primary user. In our view it would be helpful if better linkages to the FReM could be made to make use of the additional guidance on materiality contained therein rather than at the end of the chapter.
20. Paragraphs 1.51 and 1.52 could, in our view, be converted to tables showing which disclosures are and which are not subject to materiality assessments. Furthermore, Figure 1.1 - Overview of the TCFD framework on page 27 could be updated to make it clear which recommended disclosures are applicable regardless of materiality. We would also suggest moving the table to sit in the materiality assessment section.
21. We found Figure 1.2 - Flowchart for applying this guidance useful and we recommend that it is moved to, or also included, within the scope section to provide a visual guide.
22. In our view, Figure 1.3 - Summary of disclosure requirements should be used in conjunction with an update of Figure 1.1 as described above and should sit directly below. Figure 1.3 states that the disclosures are to be included in the annual report “where possible”, yet paragraph 1.63 is quite specific regarding the location for central government entities. Ideally, “where possible” should be removed from Figure 1.3.

Question 2

Does Chapter 1 provide sufficient detail on TCFD-aligned disclosure for central government and public sector bodies? Does this adequately set out the scope, principles, and concepts for disclosure? If not, what further detail should be added?

23. Yes, we believe Chapter 1 provides sufficient detail yet we believe that more clarity around scope and materiality guidance could be achieved with modest changes, primarily via better integration of the diagrams, see comments above.

Question 3

Guidance has been included on how TCFD-aligned disclosures interacts with existing UK public sector risk reporting requirements in the ‘Principal, new and emerging risks’ section. Is the guidance sufficiently clear on this interaction? If not, what further detail should be added?

24. In our view the guidance could be clearer on what the requirements are if the climate risk is material and if it is not material to the public body concerned.
25. Many preparers will be familiar with the FReM requirement to report principal and emerging risks, the latter being those risks with uncertain outcomes (see paragraph 4.9). Whilst we accept that reporting against the TCFD requirements will improve over time, it might be useful for HMT to classify climate risk as an emerging risk affecting all departments. This would ensure that climate reporting falls within more familiar guidance in the FReM which the TCFD framework could then supplement.
26. Paragraph 4.7 states that the risk management disclosures are mandatory but on a comply or explain basis irrespective of whether climate risk is a principal risk or not. Yet under the public sector considerations and further guidance section (paragraphs 4.9 to 4.15), only principal risks are considered.
27. This additional guidance sets out what the existing reporting requirements are for principal risks and goes on to explain what is a principal risk. Paragraph 4.15 gives the impression that if climate risk is not a principal risk, then an organisation must articulate their rationale for this decision which could be seen as the disclosure requirement.
28. In our view, if climate change is not deemed a material risk, there is a high probability that entities will not disclose their risk management processes as is required by the framework. Disclosures under the risk management pillar should be reviewed in the coming years to ascertain whether more guidance is required to help preparers disclose the right amount of information for climate risks that are not material.

Question 4

No interpretations and adaptations have been made to Risk Management recommended disclosure (a). Do you support this proposal? Is the information in ‘Public sector considerations and further guidance’ sufficient for preparers? If not, what further detail should be added?

29. Yes, we agree that no additional public sector specific guidance is required for this section.
30. Linked to the above, we suggest reminding report preparers that disclosures under the risk management pillar are mandatory on a comply or explain basis (no materiality assessment). We would expect most entities to be able to comply with the disclosure requirement to describe the process and assessment of climate-related risks.
31. In our view, the recommended disclosures under a) for the risk management pillar require entities to describe processes and are thus qualitative in nature. Recommended disclosures include disclosing the process for assessing the potential size and scope of identified climate-related risks.
32. We therefore do not agree with the proposal in paragraph 4.18 to ‘clearly set out the magnitude of the related risk’ as it may be difficult to quantify. We recommend removing references to magnitude but to keep the requirement to set out the relative importance of climate-related risks compared with other risks.
33. Climate risk impacts on the entity will be covered in phase 3, under the strategy pillar.

Question 5

No interpretations and adaptations have been made for Risk Management recommended disclosure (b). Do you support this assessment? Is the information in ‘Public sector considerations and further guidance’ sufficient for preparers? If not, why not? What further detail should be added?

34. Yes, we support this assessment.

Question 6

No interpretations and adaptations have been made for Risk Management recommended disclosure (c). Do you support this assessment? Is the information in ‘Public sector considerations and further guidance’ sufficient for preparers? If not, why not? What further detail should be added?

35. Yes, we support this assessment.
36. However, by stating in paragraph 4.22 that entities must report on how material climate related risks are integrated into their overall risk management process, it becomes less clear what to do if climate risk is not a principal risk. Furthermore, paragraph 1.38 states that entities must apply the requirements set out in this guidance on a comply or explain basis. It is not obvious if this principle would still hold for risk management disclosures; more clarity is needed since there should be few reasons for non-compliance, if any.
37. We therefore recommend that HMT includes another paragraph that reminds preparers that these are recommended disclosures that need to be complied with on a comply or explain basis irrespective of materiality assessment.

Question 7

Do you have any further comments on Chapter 4 Risk Management?

38. We have no further comments.

Question 8

Metrics and Targets (a) has been adapted to remove the reference to ‘revenue goals from for products and services designed for a low carbon economy. The reference to ‘Examples

of Climate-Related Risks/Opportunities and Potential Financial Impacts’ and ‘Cross-Industry, Climate-Related Metric Categories’ have been included in Annex A. Do you support this approach? If not, why not?

Is the information in ‘Public sector considerations and further guidance’ sufficient for preparers? If not, what further detail should be added?

39. Yes, we are broadly supportive of the approach adopted.
40. We recommend that HMT clearly articulates how the current central government reporting frameworks interact with the metrics and targets pillar of the TCFD framework. The supporting guidance from TCFD on page 43 states that entities should consider including metrics on climate-related risks associated with water, energy, land use, and waste management. In our view these are all covered by current reporting frameworks. See our response to question 9 for further elaboration.

Question 9

No interpretations and adaptations have been made for Metrics and Targets recommended disclosure (b). Do you support this assessment and is the Supporting guidance from TCFD appropriate?

Is the information in ‘Public sector considerations and further guidance’ sufficient for preparers?

41. Yes. We agree that no interpretations or adaptations are required for these disclosures for application in the public sector.
42. However, we believe there may be a problem in the alignment between GHG emissions reporting in the GGC and SRG guidance, the first being owned by Defra and the latter by HMT. Paragraph 5.35 urges those entities in scope of GGC to align their reporting with SRG, but it is not mandatory.
43. As GGC is silent about which methodology to adopt when reporting on scope 1, 2 and 3 emissions, in contrast with SRG which mandates the GHG Protocol, there is a risk that public bodies may not report consistently on their greenhouse gas emissions.
44. While we understand that HMT is asking entities to disclose if they are GHG Protocol compliant rather than mandate its use to reduce the burdens placed on public bodies adopting TCFD we believe that it is important that a common approach is adopted across the public sector. We recommend HMT provide support to entities that are not using a GHG Protocol-compliant approach to enable them to update their methodology.
45. Another difference between GGC and SRG is that the former is aimed at policy leads, the latter is aimed at Parliament. This could have an impact on materiality assessment and whilst scope 1 and 2 are not subject to materiality, scope 3 is. Other reporting metrics might also be influenced.

Question 10

Metrics and Targets (c) has been adapted to add a reference to ‘service delivery’ in product lifecycle emissions considerations, and remove reference to ‘revenue goals from for products and services designed for a low carbon economy’. Do you support this adaptation? Reference to TCFD’s ‘Cross-Industry, Climate-Related Metric Categories’ have been included in Annex A. Do you support this approach? If not, why not?

46. Yes, we support the proposed removal of references to revenue goals for products and services designed for a low carbon economy.

Is the information in ‘Public sector considerations and further guidance’ sufficient for preparers? If not, what further detail should be added?

47. We do not have any further suggestions for the ‘public sector considerations and further guidance’ section.

Question 11

Do you have any further comments on Chapter 5 Metrics and Targets?

48. Yes. We believe that there should be a common baseline year for all public bodies, consistent with the requirement in the Greening Government Commitments to ensure comparability and streamline reporting.