



HM Treasury

Implementing TCFD-aligned disclosures

Max Greenwood, HM Treasury

Steven Wareing, DHSC

Slido Poll – Question 1

Does the pace of sustainability-related reporting in the UK public sector seem:

- A. Too fast
- B. About right
- C. Too slow

Slido Poll – Question 2

How familiar are you with the Task Force on Climate-related Financial Disclosures (TCFD) Framework?

- A. I'm an expert
- B. I know the basics
- C. This is the first I am hearing of it

Slido Poll – Question 3

Is your organisation planning to implement TCFD-aligned disclosure in their annual report?

- A. Yes, from 2023-24 at the same pace as central government
- B. Yes, from 2023-24 but at a slower pace
- C. Yes, at some point in the future but not from 2023-24
- D. No plans so far!

Overview: The Four Pillars



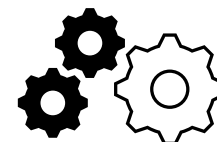
The benefits of TCFD-alignment

The TCFD framework was designed predominantly for the private sector to provide sustainability-related information to investors and asset managers for financial decision making. The public sector similarly requires climate-related information for **decision making** and **accountability** to the users of annual reports. The benefits of TCFD disclosure are centered around reporting **quality** and **management information**.

Quality	<ul style="list-style-type: none"> • Upholding 'best practice' and maintaining pace • Aligns with developments by standard setters • Comparability to the private sector and internationally • Consistency across the public sector (i.e. Public Corporations, voluntary adopters) • Provides clarity and direction to preparers
Management Information	<ul style="list-style-type: none"> • Decision useful information for departments • Prompts better stewardship and governance • Potential consolidation into WGA • Improved processes for managing climate-related risks • Improved asset management
Wider benefits	<ul style="list-style-type: none"> • Signals support for the TCFD framework • Public perception signalling to the public the government is managing public sector climate-related risks • Potential benefit for sovereign bond markets

Adoption of TCFD aligns with the UK government strategy:

- Providing insights to **improve decision-making** in support delivery of the government's Net Zero priority.
- Adoption of best practice in governance and risk management to **deliver greater value for money**.
- Improving accountability and focus on long-term outcomes to **strengthen public trust**.



Phase 1 on Governance for 2023-24



Requirements

- Application Guidance published in Jul-23
- Applies to all central government departments and certain* arms-length bodies (ALBs)
- NHS bodies can choose to adopt the framework voluntarily. DHSC are considering the application guidance and its impact on current annual reporting guidance
- Governance recommended disclosures, requiring:
 - a) a description of the **board's oversight** of climate-related issues.
 - b) a description of **management's role** in assessing and managing climate-related issues.
- Comply or explain basis for disclosure with mandatory **TCFD Compliance Statement** - covering extent of disclosure, any non-compliance and future plans.

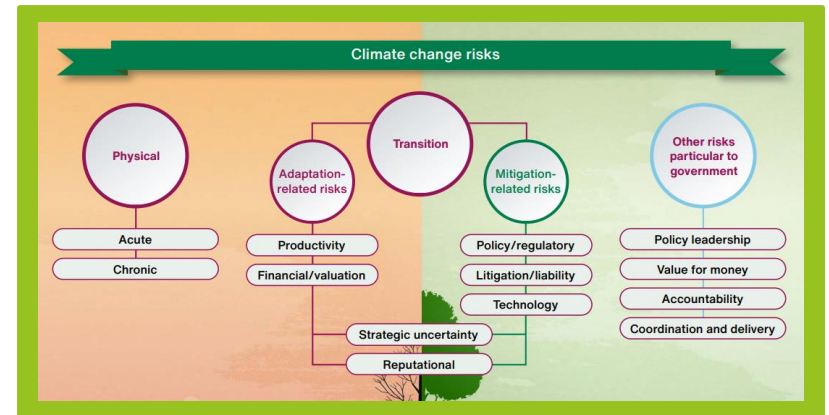


Phase 1 on Governance for 2023-24



Application

- Reporting on internal processes and structures existing in 2023-24 (i.e., in place prior to year end).
- Governance disclosure not subject to materiality assessment.
- Consider and assess alignment with Governance Statement.
- Also consider:
 - NAO's [Good Practice Guide](#) for Audit and Risk Assurance Committees (ARACs) for climate change risk.
 - [The Orange Book](#) Section A: Governance and Leadership.



Source: NAO's Good Practice Guide

Phase 1 on Governance for 2023-24



Actions

- Inform in-scope arms-length bodies within departmental group.
- Communicate with relevant internal teams (Board, ARACs, finance, risk, sustainability) - identifying responsible owners
- Consider whether to include climate-related risks (and TCFD-aligned disclosure) in the next ARAC and Board agenda
- Assess existing structures and processes connected to climate-risk
- Incorporate disclosures into year-end plan for annual reports – ensuring the appropriate level oversight, review and approval

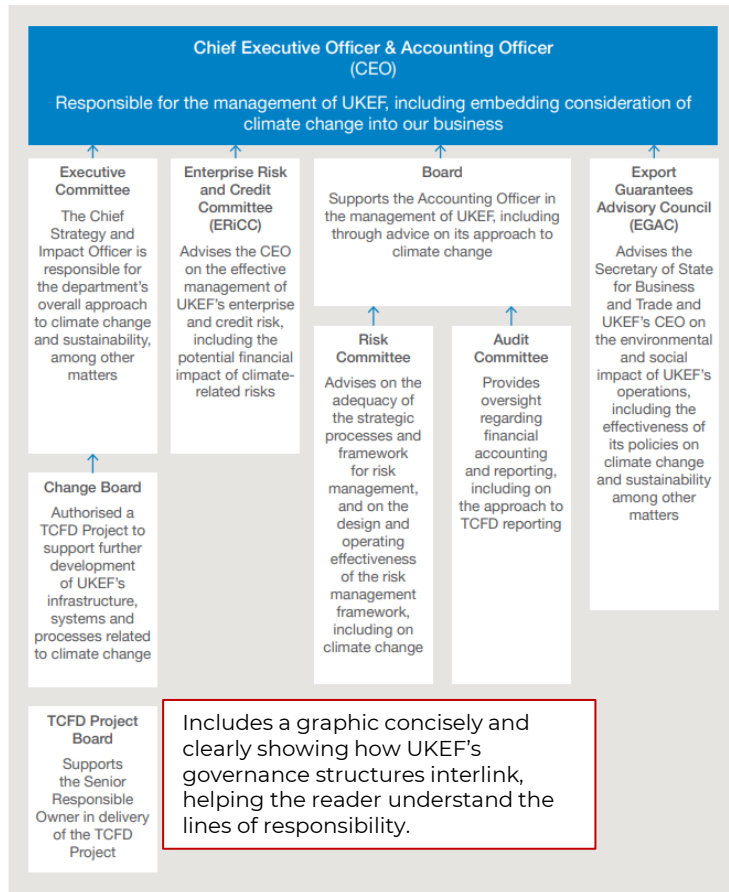
Phase 1 on Governance for 2023-24



Good Practice Example – UK Export Finance 2022-23

Governance

Our governance around climate-related risks and opportunities



Identifies management structure and responsible owners at board for climate change.

Assessing materiality and significance of climate change risk

Addresses Governance recommended disclosure a)

Linkage and cross references to other annual report sections

Addresses Governance recommended disclosure b)

UKEF embeds consideration of climate change across our business, and climate is integrated as a management issue within our governance. This facilitates the effective development and oversight of our annual TCFD disclosures.

The Executive Committee supports UKEF's CEO and Accounting Officer in the management of UKEF. The Executive Committee oversees UKEF's progress against its Climate Change Strategy through review of climate change management information, which it uses to inform related decision-making. In 2022-23, the Executive Committee considered 18 submissions on climate-related issues, ranging from decisions on our Sustainability Policy Statement to our engagement at COP27.

The Chief Strategy and Impact Officer is the Executive Committee member responsible for the department's approach to climate change. As climate change is a material issue across the department, other Executive Committee members are also responsible for integrating climate change into their areas of accountability. The Chief Risk Officer reports to the CEO and is responsible for integrating climate change into the department's risk management (see the Chief Risk Officer's report on page 58).

The Enterprise Risk and Credit Committee (ERiCC), chaired by the Chief Risk Officer, considers the financial and non-financial impact of environmental, social and governance (ESG) risks, including climate-related risks. Portfolio level monitoring, which includes climate-related stress testing and scenario analysis, is presented biannually to ERiCC and the UKEF Board's Risk Committee. Enterprise risk reports, which include climate change as a primary risk, are presented to ERiCC quarterly; these reports include an enterprise risk dashboard, a risk governance report, an operational risk report and a summary of assurance testing

performed. ERiCC's ongoing oversight of UKEF's ESG risks, at both a portfolio and facility level, has also benefited from the introduction of the climate data dashboard, which includes a dedicated ESG risk view.

Other committees also support the management of climate change within their areas of responsibility. The Change Board-authorized TCFD Project, through which we delivered many of the enhancements to how we approach climate change, will conclude in financial year 2023-2024. The TCFD Project's Senior Responsible Owner has been the Deputy Director of Climate Change and Sustainability, who reported to the Change Board on the project's progress biannually. The Chair of the Audit Committee has been the Board's nominated non-executive director on the TCFD Project Board. We will continue to deliver our TCFD reporting annually, with the Deputy Director of Climate Change and Sustainability responsible for this on an ongoing basis.

The UKEF Board supports the CEO and Accounting Officer in the management of UKEF, including through advice on our approach to climate change. The UKEF Board and its committees considered 8 submissions on climate-related issues this year, including UKEF's Strategic Risk Register, which includes climate as a primary risk. In this case, the Board provided feedback on the mitigations, controls and contingency plans held by UKEF against each strategic risk. This year, the Board also received presentations on climate change and sustainability, which supported its ability to provide effective oversight of UKEF's climate-related risks and opportunities. The Audit Committee supports the UKEF Board in its supervision of the TCFD Project, specifically on elements relating to reporting. The Risk Committee advises on the implementation of TCFD from a risk management perspective.

Governance recommended disclosure b)

Identifies reporting channels, responsible owners in management for climate change.

Interlinkage with other TCFD pillars - including Risk Management, Strategy

Performance 85

Phase 1 on Governance for 2023-24



Good Practice Example - Environment Agency 2021-22

Climate-related Financial Disclosures

The Financial Stability Board in 2017 created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate recommendations provide a framework for understanding and an organisation from a changing climate, including the transition it can:

- Understand its climate risks in material and financial terms
- Have developed actions to address those risks
- Have the governance aspects of climate change embedded in the boardroom rather than siloed in supporting functions

In 2019 the government established a UK Taskforce to explore the most effective approach to implementing the recommendations of the TCFD and set out its pathway to achieving that ambition in an interim report and roadmap. The government and regulators concluded that the UK should move towards mandatory TCFD-aligned disclosures across non-financial and financial sectors of the UK economy by 2025, with most action occurring over the first three years, to help accelerate progress.

The Environment Agency is not yet required to make a public statement on its climate-related financial risks by law, although many of our partners (including those we regulate) are. Choosing to do so helps our own governance, risk management and decision making activity and builds on our culture as a learning organisation. It also provides a sound platform upon we advise others undertaking their own with the understanding statement to be built on.

The TCFD framework strategy, risk management, we are managing our disclosure. We have to may impact our revenues, reduce our productivity or simply how weather events may disrupt our services.

Governance

Section 2 of the Governance Statement sets out governance in the Environment Agency. Within these governance arrangements, the Climate Portfolio Board has oversight of our activity around preparing for climate impacts, enabling UK net zero and walking the walk, and reports into the Environment and Business (E&B) Business Board.

Currently, several Directors have accountability for different aspects of climate change, reflecting the nature of our organisation. Our Climate Ambition is to create a net zero nation, resilient to climate change. This is illustrated in Figure 3: the Chief Operating Officer (COO) is accountable for the 'walking the walk' segment and the Environment and Business Executive Director is accountable for two external facing segments. The Executive Director of Flood and Coastal Risk Management also has a significant accountability in mitigation, adaptation, and resilience. Despite the internal launch of the Climate Ambition, feedback is consistent that the division of roles in relation to climate change is not clear enough amongst staff. The boundary between the Environment Agency's outputs and outcomes and the ways in which it delivers those outcomes is often blurred in our approach to managing climate risk.

40

Figure 3 Our Climate Ambition

into the operation of the relevant Business Board and the degree to which the Business Boards are considering their specific climate risks. Following an internal audit report on the Environment Agency's Preparing for Climate Impacts Plans completed in May 2022, a number of actions have been agreed to strengthen the arrangements for delivering the plan. This includes reviewing the governance arrangements for climate change and how the Business Boards are engaged. The actions are scheduled for completion by 31 March 2023. The Preparing for Climate Impacts Plan is the action plan agreed as part of the Environment Agency's third adaptation report Living Better with a changing climate published in October 2021, which is a comprehensive quinquennial assessment of the risks and opportunities for the Environment Agency in delivering its strategy and functions from the impacts of climate change. It is produced by the Environment Agency as a reporting authority under the Climate Change Act 2008.

Many different strategies are reviewed and approved by EDT, for example the Flood and Coastal Erosion Risk Management Strategy, the EA Net Zero Roadmap and the Adaptation Report. These all address the current situation, future risks and opportunities and set out how the organisation is going to address these. Some include a costed plan.

Each action on the e:Mission 2030 EA Net Zero Strategy Action Plan (signed off by EDT and monitored by the Sustainable Business Team) is given a red/amber/green status each quarter. This is taken to the Operational Business Board and exceptions are raised up to EDT to progress.

The Environment Agency uses business critical models to underpin decision making for a range of activities. This includes managing flood incident response using flood forecasting models on a daily basis and sub daily basis during times of flooding, or our reservoir flood model in events such as the failure of Toddbrook reservoir in 2019. We also have detailed flood models used to help protect people and enhance the environment, to understand flood risk and feed Business Case Report (BCR) calculations at a project/program level when delivering our £5.2 billion six-year FCRM capital programme. Quality assurance for these flood models sits within the Modelling Quality Assurance Framework and is risk based. The modelling quality assurance process is built into the governance processes for commissioning and delivering flood modelling.

TCFD recommended disclosures on governance

The Board's oversight of climate-related risks and opportunities comprises of:

- On mitigation, monitoring the corporate scorecard measure for carbon emissions and EDT review of progress against actions within our net zero roadmap
- On adaptation, monitoring the corporate scorecard measure on climate change impact on our corporate objectives and statutory duties
- Every paper to EDT is required to consider the impact on addressing the climate emergency. Management's role in assessing and managing climate-related risks and opportunities comprises of:
 - Much of the Environment Agency's work being directly related to mitigation, resilience, and adaptation, and shaped by the changing climate. We are therefore relatively mature in understanding the climate-related risks and opportunities in relation to our outcomes
 - Many of our staff are leaders in different aspects of climate change, for example sitting on external boards or driving forward mitigation or adaptation action

In conclusion, we have high awareness and commitment at leadership levels and an acknowledgement of the criticality of climate risk and clear general governance structure and reporting mechanisms. We need to improve on:

- Consistency in driving the message of climate as 'the main thing' through all strategies and management communications (backed up by employee survey results)
- Clarity around the difference between outcomes (or the change that happens in the outside world), outputs (what we do and produce) and how we deliver those outcomes and outputs

Brief introduction with:
 - overview of TCFD
 - driver for making first disclosure
 - self-assessment

Clearly sets out their Climate Ambition in an eye-catching graphic

Linkage to other pillars and disclosures

Governance disclosures with:
 - explanation of lines of authority and responsible owners
 - overview of reporting channels and monitoring processes

Linkage to other annual reports sections

Assurance considered

Includes balanced assessment of existing performance and structures

Phase 1 on Governance for 2023-24



Interaction with the GAM and FT ARM

- The GAM and FT ARM detail annual reporting requirements for NHS bodies. Guidance in the GAM and FT ARM is generic regarding sustainability – HM Treasury annually approve the GAM via FRAB
- NHS England’s [Delivering a Net Zero NHS](#) sets out the ambition and future approach, as well as an assessment of current practices
- The NHS Green Plans are broadly consistent with the principles of TCFD, requiring entity level consideration of:
 - governance - including board level responsible owners
 - sources of carbon emissions and related targets
 - climate change risks and required adaptations
 - actions and initiatives to deliver strategy
- DHSC and NHSE discussing how narrative TCFD requirements can be more specifically built into guidance around green plan updates.



Phase 2 on Risk Management and Metrics and Targets for 2024-25

Requirements – Risk Management

- Risk Management recommended disclosures, requiring entities to:
 - a) describe the organisation's processes for identifying and assessing climate-related risks
 - b) describe the organisation's processes for managing climate-related risks
 - c) describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.
- Recommended disclosures focus on internal risk processes, rather than the climate-related risks themselves - addressed in Strategy recommended disclosures a) and b)

Phase 2 on Risk Management and Metrics and Targets for 2024-25

Requirements – Metrics and Targets

- Metrics and Targets recommended disclosures, requiring entities to :
 - a) disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
 - b) disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
 - c) describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.
- Alignment with GGCs reporting requirements for 2024-25, with a review of the reporting requirements in the Sustainability Reporting Guidance to coincide with new GGCs 25-30 (in Phase 3).

Phase 2 on Risk Management and Metrics and Targets for 2024-25

Development

- In development with the TCFD Technical Working Group (TWG), FRAB and other stakeholders
- Exposure Draft expected in Dec-23 open for comments until early 2024

Early considerations

- Climate-related risks which impact an entity's strategy and objectives, considering the wider impact on UK's economy, the environment and the public.
- Information on the categorisation of climate-related risks (e.g., new/emerging, principal, combined, etc.)
- Alignment with existing GGC framework until 2025-26

Phase 2 on Risk Management and Metrics and Targets for 2024-25

Application and Key Actions

- Reporting on internal processes and structures existing in 2024-25 (i.e., in place prior to year end) – similar application considerations to Phase 1, including:
 - Engage with responsible owners and experts (e.g. risk teams and ARACs).
 - Inform relevant internal and external stakeholders (e.g., reporting bodies within the group, relevant teams, etc.,)
 - Assess existing structures and processes connected to climate-risk.
 - Considerations for year-end annual report preparation
- Consider existing risk register, alongside board minutes and papers.

Phase 3 on Strategy for 2025-26

Development

- HMT and TCFD-TWG will start Phase 3 after the publication of Phase 2
- Exposure Draft expected in summer 2024 with guidance in late 2024
- Plans for a wider consultation on future sustainability reporting strategy in 2024

Phase 3 on Strategy for 2025-26

Requirements

- Strategy recommended disclosures, requiring entities to:
 - a) describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term
 - b) describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning
 - c) describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Open discussion, including potential challenges

Capacity and resource
varying skills, expertise and ambition

Competing frameworks
different reporting channels
for different purposes

Consistency
across such a diverse group

Authority and responsibility
for setting standards, reporting and
policy

Relevance
gov. responsible to public, not investors

Applicability
structural and procedural differences for
public sector organisations

Suitability
users interested in broader array of risks

Scope setting
balancing user needs with preparer
ability and responsibility



HM Treasury

Questions

Max Greenwood

Max.greenwood@hmtreasury.gov.uk

Steven Wareing

Steven.Wareing@dhsc.gov.uk