



Response to HM Treasury's phase 2 exposure draft for Task Force on Climate-related Financial Disclosures (TCFD) – aligned disclosure

Introduction

HM Treasury has published an exposure draft¹ to consult on new climate-related financial disclosures covering phase two of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. This follows the application guidance for phase one², published in July 2023 addressing the recommended disclosures for the governance pillar.

The exposure draft covers the whole UK public sector. The proposed effective date for central government bodies is 1 April 2024. Other public bodies, including NHS bodies, should follow the direction from their relevant authority. These proposals will affect HM Treasury's *Financial reporting manual* (FReM), with NHS bodies following the Department of Health and Social Care's *Group accounting manual* (GAM) that is consistent with the FReM. Public sector bodies may also choose to voluntarily apply this guidance – in full or in part.

Phase two of this application guidance sets out the recommended disclosures for the risk management and metrics and targets pillars of the TCFD framework. In addition to phase one disclosure requirements, phase two includes¹:

- the TCFD risk management recommended disclosures:
 - describe the organisation's processes for identifying and assessing climate-related risks
 - describe the organisation's processes for managing climate-related risks
 - describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

¹ HM Treasury *TCFD-aligned disclosure exposure draft phase 2*, December 2023

² HM Treasury *TCFD-aligned disclosure application guidance phase 1*, July 2023



- the TCFD metrics and targets recommended disclosures:
 - disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process
 - disclose scope one, scope two, and, if appropriate, scope three greenhouse gas (GHG) emissions, and the related risks-aligning with existing GHG emissions reporting methodologies where appropriate
 - describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

The HFMA is responding to this consultation with a specific focus on areas of the exposure draft that relate to NHS bodies. In summary, we support the changes to better reflect public sector contexts overall. The HFMA is broadly supportive of the exposure draft, and we welcome consistency and clarity over sustainability reporting in both the public and private sector.

Q1: 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?

We agree that reporting entities must consider whether climate-related issues are material for that entity and that materiality will, in part, be assessed based on the importance of the issue to the users of the accounts and that some TCFD disclosures are required independent of a materiality assessment as they are fundamental to understanding an organisation’s ability to manage climate-related risks.

The NHS in England has statutory obligations regarding net zero, as articulated in the *Health and Care Act 2022*, and all NHS bodies have produced green plans that support the delivery of those ambitions. Progress in delivering the actions set out in those green plans will be of interest to users of NHS accounts. As there are separate requirements to report progress against green plan objectives, we also believe that cross referencing from the annual report and accounts to these existing reports should be encouraged to avoid duplicating content, or creating unwieldy documents that make finding information about actions in relation to climate change difficult to find.

Q2: 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?

We welcome the approach that the TCFD framework is principles-based and that in-scope reporting entities must apply a ‘comply or explain’ basis for disclosure, as set out in paragraph 1.32.

Overall, we agree that the chapter adequately sets out the scope, principles and concepts for disclosure.

We note the flowchart for applying this guidance in figure 1.2 refers to the undertaking of significant activities in relation to eight key areas. We would welcome further clarity where these are not the primary function of the body but might apply. For example, how these might apply to NHS bodies such as ‘transportation’ for ambulance trusts or NHS bodies who may generate energy (i.e. solar panels) or own significant assets for the purposes of delivering healthcare services.

Q3: Guidance has been included on how TCFD-aligned disclosures interact 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?

We note that chapter four mainly addresses qualitative disclosures surrounding an organisation’s processes for identifying, assessing, and managing climate-related risks, and their integration with the organisation’s overall risk management.

We agree the ‘principal, new and emerging risks’ section is clear.

Q4: 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?

We agree with the proposal for no adaptations to the risk management recommended disclosure.

Q5. Are there any other equality impacts we should consider? 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?

We do not have any further comments in response to this question.

Q6: 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?

We do not have any further comments in response to this question.

Q7: Do you have any further comments on Chapter 4 Risk Management?

We agree with a phased approach, particularly noting that in the NHS there is a lot we recognise in the governance and risk management pillars that aligns with existing annual reports such as how we assess and manage risk.

Q8: 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?

We agree that there needs to be a clear understanding of an organisation’s methods for assessing and tracking climate-related risks and opportunities. We do not have any specific comments in response to this question.

Q9: 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?

We agree with the proposal for no adaptations to the metrics and targets recommended disclosure. We do not have any further comments in response to this question.

Q10: 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? Is the information in ‘Public sector considerations and further guidance’ sufficient for preparers? If not, what further detail should be added?

We do not have any specific comments in response to this question.

Q11: Do you have any further comments on Chapter 5 Metrics and Targets?

We note this chapter comprises primarily qualitative disclosures related to metrics and targets, as well as qualitative information on how the metrics and targets are used by the organisation.

It is important to recognise organisations may not have processes in place to capture and report on all metrics and targets, particularly across all scope one, two and three emissions reporting.

About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For over 70 years, it has provided independent and objective advice to its members and the wider healthcare community. It is a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through its local and national networks.

The association also analyses and responds to national policy and aims to exert influence in shaping the wider healthcare agenda. It has particular interest in promoting the highest professional standards in financial management and governance and is keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

The HFMA offers a range of qualifications in healthcare business and finance at undergraduate and postgraduate level and can provide a route to an MBA in healthcare finance. The qualifications are delivered through HFMA's Academy which was launched in 2017 and has already established strong learner and alumni networks.

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HFMA

HFMA House, 4 Broad Plain, Bristol, BS2 0JP
T 0117 929 4789
E info@hfma.org.uk

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HFMA is also a limited company registered in England and Wales, no 5787972. Registered office: 110 Rochester Row, Victoria, London SW1P 1JP

www.hfma.org.uk