Department of Health & Social Care

Environmental reporting requirements

Implementing Task Force on Climate-related Financial Disclosure recommendations in the GAM

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What are the TCFD recommendations and why adopt them in the public sector

What is HM Treasury's approach to implementation of TCFD in the FReM

What is being planned for the GAM for current and future years

Other sustainability developments

TCFD Recommendations

Background

- In 2015 Financial Stability Board established the industry led Task Force to develop climate-related disclosures able to promote more informed investment, enabling stakeholders to understand concentrations of carbon-related assets and exposures to climate-related risks
- The Task Force developed a framework published in 201t that detailed;
  - **4 widely adoptable recommendations applicable across sectors and industries – see next slide**
  - **11 recommended disclosures – see next slide**
  - **General and sector-specific guidance for applying the framework**
  - **Key principles for effective disclosure**
- The UK government formally endorsed the TCFD framework for large entities in the private sector

Core elements pillars	Governance	Strategy	Risk Management	Metrics and Targets
Recommendations	Disclose the organisation's governance around climate related risks and opportunities	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material	Disclose how the organisation identifies, assesses and manages climate-related risks	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material
Recommended disclosures	a) Describe the board's oversight of climate-related risks and opportunities	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	a) Describe the organisation's processes for identifying and assessing climate-related risks	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) Describe management's role in assessing and managing climate-related risks and opportunities	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	b) Describe the organisation's processes for managing climate-related risks	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks
		c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Why adopt TCFD in the public sector

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	• 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	• 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	• 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.**

What is HM Treasury's approach to implementation of TCFD in the FReM

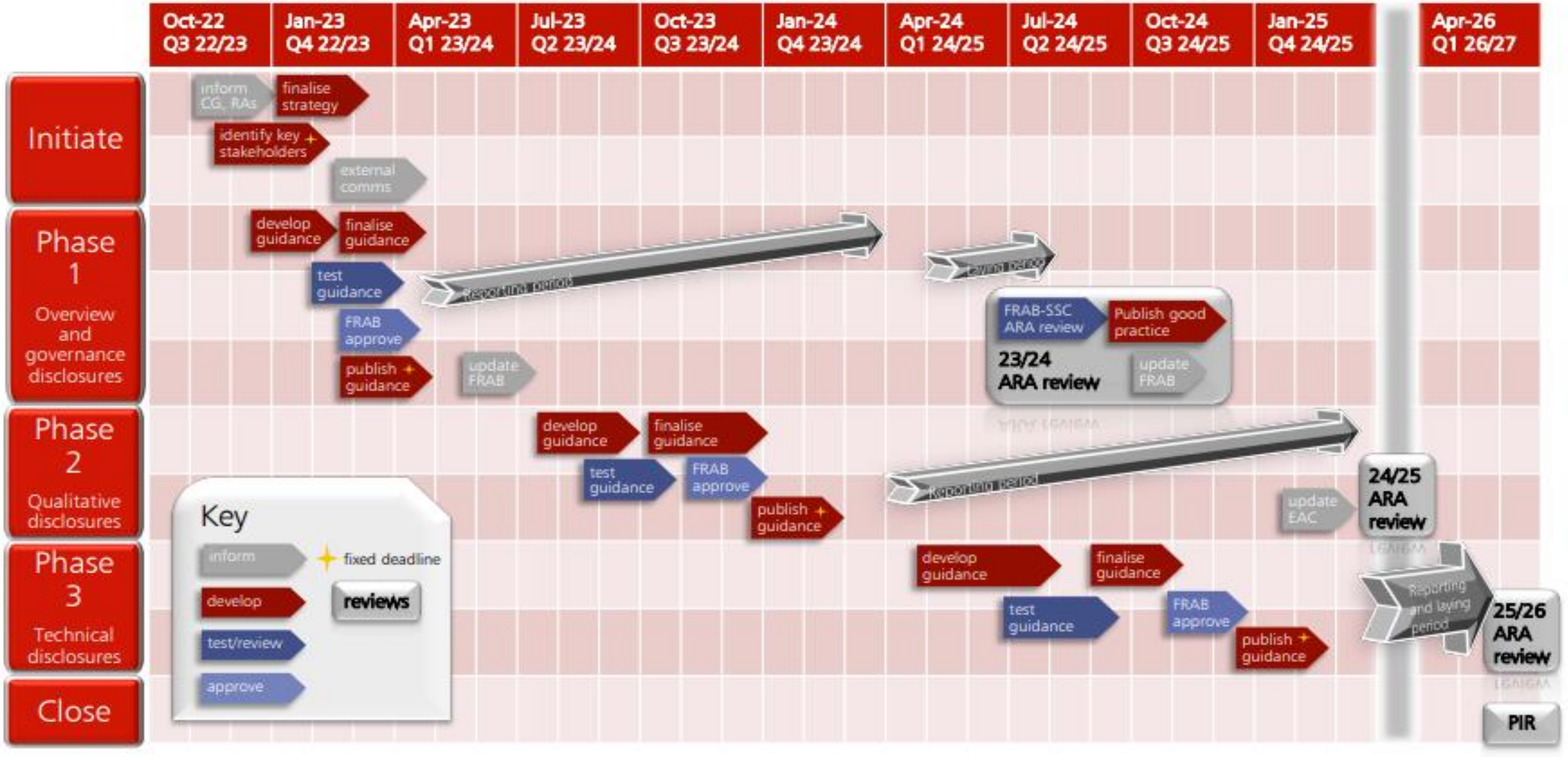
Approach to implementation

- HM Treasury have developed a 3 phased approach to incorporating the recommended disclosures in the Financial Reporting Manual

  - **Phase 1 developed for 23-24 includes details around scoping, threshold and compliance, governance pillar recommendations and continued disclosures relating emissions reporting connected to Greening Government Commitment reporting.**

  - **Phase 2 being implemented for 24-25 covers requirements regarding metric and target pillar recommendations and risk management recommendations**

  - **Phase 3 delivering full implementation of TCFD by 25-26 in addressing the strategy pillar recommendations**


Oct-22 Q3 22/23
Jan-23 Q4 22/23
Apr-23 Q1 23/24
Jul-23 Q2 23/24
Oct-23 Q3 23/24
Jan-24 Q4 23/24
Apr-24 Q1 24/25
Jul-24 Q2 24/25
Oct-24 Q3 24/25
Jan-25 Q4 24/25
Apr-26 Q1 26/27
Initiate
inform CG, RAs
finalise strategy
identify key stakeholders
external comms
Phase 1
Overview and governance disclosures
develop guidance
finalise guidance
test guidance
FRAB approve
publish guidance
update FRAB
Reporting period
Laying period
FRAB-SSC ARA review
Publish good practice
23/24 ARA review
update FRAB
Phase 2
Qualitative disclosures
develop guidance
finalise guidance
test guidance
FRAB approve
publish guidance
Reporting period
update EAC
24/25 ARA review
Phase 3
Technical disclosures
develop guidance
finalise guidance
test guidance
FRAB approve
publish guidance
Reporting and laying period
25/26 ARA review
Close
PIR
Key
inform
fixed deadline
develop
reviews
test/review
approve

Scope of application in the FReM

- Entities must adopt requirements on a comply or explain basis as a part of performance reporting requirements and audited accordingly

- Guidance is applicable to all central government departments and ALBs that have more than 500 employees or operating income exceeding £500m

- No direct impact where TCFD requirements already components of reporting requirements and where relevant authorities determine reporting requirements

- As well as asking preparers to apply the HM Treasury application guidance the application guidance requests preparers to consider the wider TCFD guidance implementing the recommendations of the Task Force

How does the FReM impact the approach of the GAM in respect of TCFD aligned disclosure

- The GAM follows the FReM bar specific divergences, though greater flexibility and determination exists around annual reporting requirements.
- The GAM is endorsed by the Financial Reporting Advisory Board (FRAB) who have supported the process of adopting TCFD aligned disclosure across the public sector in a recently published position statement
- The NHS has statutory obligations regarding net zero with green plans support delivery of that ambition. Progress to delivery will be of interest to users of NHS accounts
- Clear rationale for adoption in the GAM which the FT ARM will also reflect.

Approach to TCFD in the GAM

Content of the 24-25 GAM consultation

- Introduces the similarities with HM Treasury's TCFD aligned disclosure application guidance will be implemented in the GAM, including;
  - **Maintaining the comply or explain basis of the disclosures**
  - **Maintaining the scope thresholds for organisation (500 FTE or £500m income)**
  - **Welcoming voluntary adoption for organisations below the scope thresholds**
  - **Cross referencing to the TCFD implementation guidance**
  - **Following the same phased approach to incorporating TCFD recommendations**

- Introduces differences to the HM Treasury's guidance including
  - **The GAM not requiring entities to disclose or develop processes to disclose scope 1,2 and 3 emissions.**
  - **Allows for cross referencing to external reports than duplicating content**
  - **Not requiring a compliance statement as is required per the FReM**

Phase 1 guidance in the GAM

- Chapter 3 Annex 5 of the GAM provides introductory detail confirming, scope, application and location of the disclosures for the ARA.
- Offers some suggested text for introducing the disclosures in the performance analysis
- Details the disclosure requirements under the governance pillar which are to;
  - **Describe the board's oversight of climate-related issues**
  - **Describe management's role in assessing and managing climate-related issues**
- Qualitative disclosures designed to assist users of accounts in assessing adequacy and effectiveness of an organisation's board to oversee and manage climate-related issues.
- Clear linkage to aspects of the corporate governance report and level of cross-referencing dependent on the extent to which climate policies and risks are addressed by the same governance processes

Phase 1 guidance in the GAM

- The GAM also provides suggested considerations for each disclosure that are summarised from the TCFD implementation guidance, aimed to help preparers.

- The content of the GAM is considered the minimum necessary to compile the disclosures and the HM Treasury guidance goes into more detail as to how the disclosures should be contextualised for the public sector

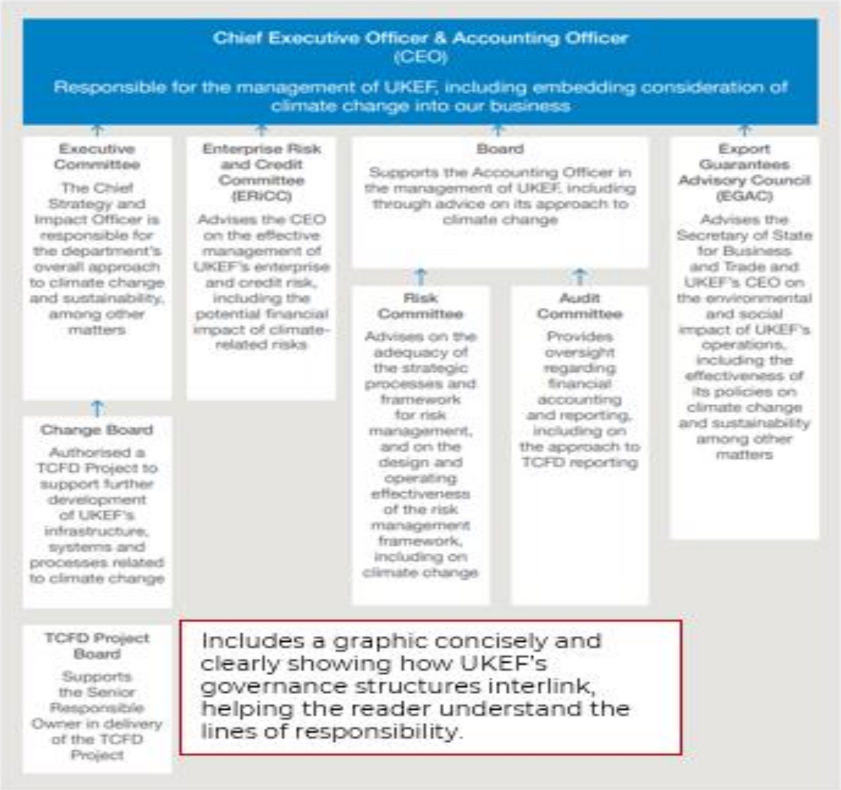
- Phase 1 of the HM Treasury guidance was finalised Summer 2023 so barring input from users, preparers or auditors as part of the GAM consultation the guidance is set for phase 1 and will enter the 23-24 GAM as part of a Q4 FAQ

Phase 1 on Governance for 2023-24

Good Practice Example – UK Export Finance 2022-23

Governance

Our governance around climate-related risks and opportunities



Includes a graphic concisely and clearly showing how UKEF's governance structures interlink, helping the reader understand the lines of responsibility.

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-authorised 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

Phase 1 on Governance for 2023-24

Good Practice Example - Environment Agency 2021-22

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

Climate-related Financial Disclosures

The Financial Stability Board in 2017 created the Task Force Disclosures (TCFD) to improve and increase reporting of clim recommendations provide a framework for understanding an an organisation from a changing climate, including the transit 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 o undertaking their own with the understanding statement to be built o

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

The TCFD framework strategy, risk manager we are managing our disclosure. We have fo may impact our revenu 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.

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

Linkage to other pillars and disclosures

Linkage to other annual reports sections

Assurance considered

Figure 3 Our Climate Ambition

s are responsible for effective management of their relevant components of pportunities and full integration with strategy and performance, however the Chief Operating Officer (COO) is the accountable lead on the Executive Directors' Team (EDT).

Section 6 of the Governance Statement sets out the consideration of material issues. Climate change is considered a key material issue and played a prominent part in the October 2021 Audit and Risk Assurance Committee's review of material issues. Out of the 11 highest scoring material issues, climate change (net zero and adaptation) featured in the top three. These interrelated issues will be reviewed and tracked on an annual basis.

The corporate scorecard includes a total carbon emissions measure including the supply chain from the 2022-23 financial year. This is reviewed by EDT every quarter alongside the risk register, which includes two prominent corporate risks arising from the climate emergency within it.

Each of the Business Boards and opportunities that are rele to describe how it contributes clarity of how that information

Includes balanced assessment of existing performance and structures

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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

HM Treasury

Source: Environment Agency Annual Report and Accounts 2021-22

Phase 2 guidance in the GAM

- Disclosures and associated guidance relating to the risk management and metric and targets pillar built into the GAM to present phase 2 requirements

- As referenced earlier no requirement is detailed around providing disclosure regarding scope 1, 2 and 3 emissions

- Otherwise the guidance and requirements reflect what is detailed in the HM Treasury phase 2 exposure draft – for which the consultation closes 26th February.

- Again the content that is currently in the GAM relating to phase 2 may be refined in line with any revisions made in the final guidance HM Treasury publish for phase 2 but also in conjunction with any consultation responses received dealing with this area.

Other sustainability developments

So what's next…

- A minor update to the sustainability requirements in the performance analysis section of the GAM relating to provisions of a summary of progress on delivery of green plans. Again this will be backdated into the 23-24 GAM.

- Going forward there will be consultation on the phase 3 guidance

- FRAB and its Sustainability Sub-committee monitor developments in sustainability standards, those issued by the ISSB and those in development from IPSASB

- FRAB Position statement has announced that moving beyond TCFD recommendations at this point would be premature but in compiling TCFD disclosures it leaves public sector well placed to take further steps in due course.