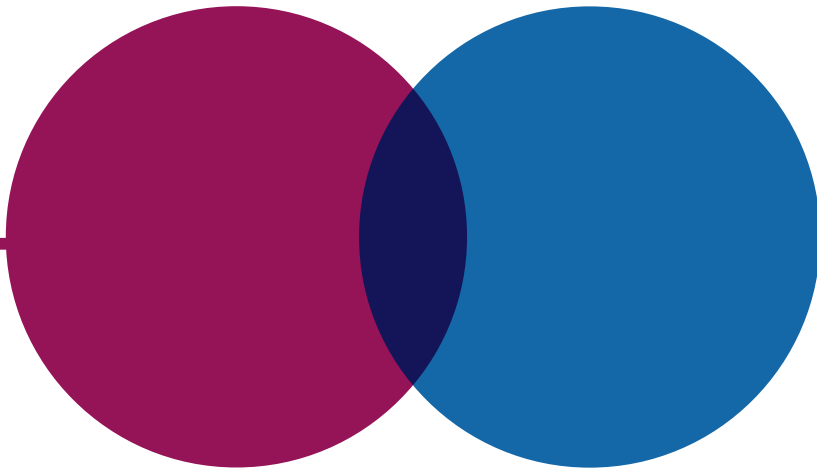




REPORT

Implementation of climate-related reporting in central government annual reports

Cross-government

Key facts

At least 117 3 years

estimated number of bodies in central government required to prepare climate-related disclosures

phased implementation period of climate-related reporting into central government annual reports, from 2023-24 to 2025-26

We circulated a survey to the public sector bodies we audit, including departments, arm’s-length bodies and government companies. Of bodies that responded to our survey:

- 94%** (of 36 respondents) consider climate-related risk to be relevant to them
- 61%** (of 36 respondents) consider climate change to be a principal risk or a component of other principal risks
- 82%** (of 34 respondents) identified physical climate-related risk to their estates as being relevant to them
- 79%** (of 34 respondents) identified physical climate-related risk to workforce and service delivery as being relevant to them
- 50%** (of 34 respondents) identified the risk that their climate policy or strategy fails to reach net zero as being relevant to them
- 35%** (of 34 respondents) identified transition climate-related risk of changing demand for public services as being relevant to them

Summary

1 The current and future impacts of climate change on people, the economy and the physical environment create risks that affect public and private sector organisations. The UK government has legal commitments to reach net zero greenhouse gas emissions by 2050, and to respond to the effects of climate change. The government has an important role to play in managing climate-related risks, both in its own estates and operations and in ensuring climate resilience and decarbonisation across the economy.

2 Central government is implementing new annual reporting requirements, aligned with the Task Force on Climate-related Financial Disclosures (TCFD), to provide transparency and accountability on climate-related issues. TCFD reporting has been mandated for certain types of organisations in the UK private sector since 2021, and its primary purpose is to help investors assess companies' resilience to climate-related risks and make informed decisions on where best to invest their money. In central government, Parliament and other senior decision-makers similarly need practical, relevant information on climate-related risks and how they are being managed to safeguard long-term value for money. This includes ensuring the long-term resilience of public service delivery in the context of climate change, and judging where and when to invest constrained resources.

3 HM Treasury (HMT) is introducing TCFD-aligned disclosure requirements into central government annual reports to align climate-related reporting with the private sector. The disclosures are being phased in over three years from 2023-24, with graduated increase in the level of detail. Organisations with material climate-related risks should produce their first full set of disclosures in their 2025-26 annual reports. The UK was among the first nations globally to introduce an internationally recognised framework of climate-related disclosure into annual reporting in central government. It builds on existing reporting such as the Greening Government Commitments framework, which has been at the core of government sustainability reporting since 2011.

Scope of this report

4 We examined the progress central government has made implementing TCFD-aligned reporting, including an early look at the potential value it might have, and risks to its efficiency and effectiveness. This report draws out learning from the early phases of implementation, with a view to informing the phases to come. This report sets out:

- climate-related reporting in the UK (Part One);
- progress so far implementing TCFD-aligned reporting in central government (Part Two); and
- the experience of central government bodies preparing TCFD-aligned reporting (Part Three).

5 This report covers some of the actions public bodies have taken to prepare TCFD-aligned disclosures, and the ways in which this process has affected their understanding of the potential impacts of climate change and how they manage climate-related risks. It is not intended to be a good practice guide to TCFD disclosures themselves, nor to provide supplementary guidance to that produced by HMT.

6 TCFD-aligned disclosures are included within annual reports, which we review as part of our audit of central government financial statements. Under the current regime, auditors check that required disclosures have been made and are consistent with the financial statements and the auditor's knowledge of the organisation, but do not directly test the underlying information. The Department for Business & Trade has recently consulted on introducing an assurance regime for sustainability reporting in the private sector. HMT is monitoring these developments and starting to consider what assurance may be required in the public sector in future. We did not examine these areas as part of this study.

Key findings

The value of TCFD to public bodies

7 **TCFD-aligned reporting has potential to deliver significant benefits to public bodies, and those that have begun to engage with the substance of the framework have found the exercise valuable.** HMT identified several intended benefits of TCFD-aligned reporting in central government, including improved accountability and transparency on climate-related issues to support better decision-making across government. Public bodies told us that the exercise of using the TCFD framework to prepare their disclosures has increased senior engagement with climate-related issues and helped them improve their understanding of climate-related risks, strengthen financial management and identify potential cost efficiencies. For example, the Ministry of Justice told us that gathering the data required to support its disclosures on climate-related risks and opportunities helped to strengthen business cases ahead of the 2025 Spending Review (paragraphs 2.2 to 2.5, 3.2 to 3.11, and Case Study 4).

8 Since 2023, many central government bodies preparing TCFD-aligned disclosures have begun re-examining and strengthening their approach to climate-related risks. Applying the TCFD framework in a public sector context requires bodies to consider a broad range of climate-related risks that may affect them, from potential operational impacts to their ability to achieve their policy aims, as well as the government's efforts to reduce emissions. Public bodies told us they have conducted new risk assessments and better understood the range and severity of the climate-related risks they face, going beyond the boundaries of existing reporting frameworks. For example, the Department for Work and Pensions performed a risk identification exercise involving functions from across the department. This enabled staff to consider the breadth of potential climate-related risks it faced, including risks of climate change increasing levels of vulnerability in society, leading to increased demand on public services and welfare. Assessing the impact of complex, interdependent climate-related risks will require improved skills across government functions and, in some cases, external expertise (paragraphs 2.22, 2.26, 3.7 to 3.9, and case studies 1, 3, and 4).

9 TCFD-aligned reporting adds to a range of other sustainability reporting in government, but brings a new strategic focus on climate-related issues most important to public bodies. Climate-related reporting in annual reports supports individual organisations to be transparent and monitor their performance on climate-related issues. TCFD-aligned disclosure broadens sustainability reporting in annual reports to considerations beyond central government estates and operations. The existing system of climate and environment reporting in government is complex at both national and organisational levels, with a range of different reporting requirements serving different purposes (Figure 7, paragraphs 1.21 to 1.26, 2.9 to 2.13).

Oversight, accountability and continuous improvement

10 Central government bodies need to make their own assessment of how significant climate-related risks are to them, in the context of their strategic objectives and the other risks they are managing. For example, the Ministry of Defence's 2021 sustainability strategy responds to the risk that climate change poses to peace and stability globally and recognises that forces may need to adapt to fighting in more hostile physical environments. HMT has mandated TCFD-aligned reporting for central government and adapted the TCFD framework for a UK public sector context, but central government bodies are responsible for the quality of their own disclosures and the climate-related risk management processes that underpin these disclosures. As with the rest of the annual report and accounts, these responsibilities ultimately rest with each body's Accounting Officer (paragraphs 2.3, 2.17, 2.23 to 2.27, and Case Study 4).

11 HMT has made a good start with supporting the implementation of TCFD-aligned reporting, but has not yet set out what support or monitoring will continue beyond 2026. HMT has provided significant support to preparers through guidance and bespoke support, and networks of preparers across government have successfully supported each other and shared good practice. However, this support has not reached some preparers, and HMT does not yet have a formal plan for oversight and support beyond the initial implementation period (paragraphs 2.14 to 2.16 and 3.13 to 3.15).

12 It will take several more years for climate-related disclosure to mature, and central government bodies are unsure about the full scope of climate-related factors to assess and disclose. The final phase of the central government implementation period will complete in 2025-26. Many central government bodies are re-evaluating their exposure to climate-related risks and designing their governance response accordingly. Even bodies who were well set up to respond to TCFD will require continued effort to reach the point where their disclosures will be a useful tool to support scrutiny and decision-making. There is a risk that the maturity of TCFD-aligned reporting in central government is further delayed by a lack of clarity among some bodies about the full scope of climate-related factors they should assess (paragraphs 2.22 to 2.27).

TCFD-aligned disclosure preparer experience

13 We found examples of emerging good practice that have helped public bodies respond to the new requirements more successfully. In particular, climate-related reporting has worked best when there is an integrated response across government professions – such as finance, sustainability, risk and policy – as well as clear senior ownership of the risks and disclosures (paragraphs 3.17 to 3.18 and Part Three case studies).

14 Public bodies we interviewed that have made most progress with their TCFD-aligned disclosures have invested time and resource into developing skills and improving disclosures over time. This reflects the complexity and novelty of the subject matter, and skills and capability gaps across government. Other public bodies told us they experienced challenges interpreting the guidance and collecting the data they need to complete the more complex reporting requirements. HMT expects that, after initial investment by preparer organisations, central government bodies' disclosure responses should be proportionate to their exposure to climate-related risk (paragraphs 1.20, 3.4, 3.12 to 3.15, 3.17 to 3.18, and Figure 9).

Recommendations and enablers

15 We have identified a series of enablers that would be helpful for public bodies implementing TCFD-aligned reporting. These enablers are based on the experiences of those bodies that have been more successful in the early stages of their journey with the TCFD framework (**Figure 1** overleaf, and paragraph 3.18). We have also made recommendations to HMT and other key central departments to help improve accountability and support to preparer bodies for any future sustainability reporting.

Recommendations for HMT and other central departments:

- a** As public sector sustainability reporting continues to develop, the Department for Environment, Food & Rural Affairs, the Department for Energy Security & Net Zero and HMT should explore further practical steps to, where appropriate, align and simplify different reporting requirements. This should minimise duplication for reporting bodies, agree the rationale for intentional divergences where reporting has different purposes, and ensure that sustainability disclosure in annual reports is accessible and useful for scrutiny by Parliament and other stakeholders.
- b** Before the HMT Government Financial Reporting team withdraws from its role leading provision of TCFD guidance for central government, it should agree a plan – with clear roles – for ongoing monitoring and support, as required, for the development of high-quality TCFD-aligned reporting. This plan should include other HMT teams and bodies that may provide support in future (such as the Government Finance Function, the Government Actuary's Department, and the Government Internal Audit Agency).
- c** To improve the roll-out of any future sustainability reporting requirements HMT leads, it should:
 - strengthen processes for communicating the rationale for sustainability reporting changes to senior stakeholders at preparer bodies;
 - ensure relevant guidance and training materials are easy to access in one place and are made available to functions beyond finance, to support a shared understanding; and
 - ensure that the Financial Reporting Advisory Board has the expertise it needs to support its role overseeing the development of future reporting requirements.

Figure 1

Emerging enablers of success for bodies preparing Task Force on Climate-Related Financial Disclosure (TCFD)-aligned disclosures

Based on our review of central government bodies we identified seven enablers that have supported bodies to make a good start on TCFD-aligned reporting

	Enablers	Bodies preparing TCFD-aligned disclosures are likely to find the exercise more valuable if they ...
 Preparing TCFD-aligned disclosures in central government bodies	Ownership by an appropriately senior stakeholder	Ensure there is an identified senior stakeholder (individual or committee) responsible within the organisation for their approach to climate-related risk, including the sufficiency and accuracy of TCFD disclosures. Overall responsibility should sit at the most senior level appropriate to the significance of climate-related risk, with responsibility for risk identification, assessment and ongoing control delegated as necessary.
	Considering a broad range of climate-related risks	Consider a broad range of physical, transition and public sector climate-related risks that might be relevant to them, not limited to the scope of existing reporting, such as Greening Government Commitments. For public sector bodies, risks relating to the resilience of service delivery or achievability of their decarbonisation targets may be most material.
	Considering relevant material opportunities	Consider material opportunities as well as risks, where relevant, when designing their climate-related risk management systems and processes, as this can improve internal engagement on climate issues and help manage benefits realisation. Climate-related opportunities are unlikely to be as significant as climate-related risks for most public sector bodies, and bodies should avoid presenting an unfairly positive outlook in their disclosure.
	Assessing the resilience of core strategic objectives to climate change	In assessing which climate-related risks are most material to the organisation, consider the resilience of their core strategic objectives to the impacts of climate change.
	Collaborative and cross-functional working	Establish collaborative working between the different functions who oversee work most relevant to TCFD-aligned reporting. Successful climate-related reporting requires an integrated response across government professions, such as finance, sustainability, risk, policy and delivery.
	Capability and access to external expertise	Assess whether they have the internal expertise required to perform climate-related risk identification, assessment and scenario analysis. Where they identify gaps, bodies should identify opportunities for targeted training, draw on external expertise where appropriate and look for ways to share knowledge, good practice and resources across government to build collective capability.
	Integrating climate considerations into business-as-usual processes	Work towards integrating climate considerations into their business-as-usual governance and risk management processes.

Notes

- 1 These enablers are not intended to be formal recommendations or a checklist.
- 2 These enablers were identified through our engagement with a range of central government bodies that are advanced (relative to others) in TCFD-aligned reporting, particularly those bodies we have used as case studies in Part Three.

Source: National Audit Office analysis of interviews and evidence received from central government bodies