National Audit Office

INSIGHT

Government's climate risk: insights from 2025-26 disclosures

Cross-government

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National Audit Office

Government's climate risk: insights from 2025-26 disclosures

Cross-government

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

22 October 2026

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Insights

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Executive summary

Climate change is already affecting the UK, with growing risks to public services, infrastructure and the economy. Significant investment will be required to reduce future damage and costs, as well as to adapt to a climate that has already changed. Parliament and senior decision-makers need clear information on the resilience of government services, infrastructure and finances to climate-related risks, and on how the government is managing those risks.

HM Treasury (HMT) has introduced climate-related financial disclosures for larger central government bodies' annual reports, and 2025-26 is the first year that these bodies must publish the impacts, timelines and costs of their significant climate-related risks. Separately, some public corporations and companies (hereafter, 'companies') have been required to produce climate-related financial disclosures since 2022. Both requirements are based on the Task Force on Climate-related Financial Disclosures (TCFD) framework, with some differences.

This year's new disclosures reveal a mixed picture of the government's resilience to climate change. Most central government bodies we reviewed are still at an early stage in understanding and reporting their most important climate risks. However, the best examples of the new disclosures provide concrete insight into the risks that bodies are facing and their potential implications. We expect this reporting to become more useful over time. Companies, who have been reporting for longer, are producing useful information about the resilience of public services to climate change.

As part of our financial audit work, we reviewed the quality of 2025-26 climate-related financial disclosures for 31 of our audited bodies, including 25 bodies reporting under HMT guidance, and six under Companies Act guidance. We assessed each body against the applicable framework. A full list and description of this review is at the end of this report. We chose these because we judged them most likely to be exposed to significant climate-related risk. Through this exercise, we gained insight into:

- the government's response to climate-related risks; and
- the maturity of sustainability reporting across central government.

This report is intended for:

Members of Parliament, who may use it to scrutinise how government bodies understand and manage climate-related risks, and what that means for public services, spending and long-term resilience;

senior government decision-makers, including board and audit committee members, who may use it to consider whether the information they receive is sufficient to support decisions about risk, resilience and resource allocation; and

preparers of climate-related disclosures, who may use it to identify common reporting challenges and areas where disclosure quality can improve.

Key takeaways



This report is structured around the four themes recommended by the Task Force on Climate-related Financial Disclosures. We also highlight how bodies assess the materiality of climate change and the implications for what they disclose.

Climate-related risk assessment

- Central government bodies took different approaches to assessing and reporting their climate-related risks. This resulted in varied conclusions as to how significant they considered climate change to be for their organisations. Six departments who own climate-related risks in the National Adaptation Programme disclosed that they did not consider climate change to be a principal risk.

TCFD theme: Strategy

- Many climate-related risks disclosed in 2025-26 were common to different parts of government. Flooding was the climate-related risk most frequently reported by the bodies in our sample. For example, 89% of prisons were disclosed as at high risk of flooding in 2025-26. Overheating, and transition cost pressures, were also identified as significant risks.
- Strategy disclosures are variable in quality. In this first year, few central government bodies fully explained the impacts of climate-related risks on operations, strategy and financial planning. Only five of the 15 central government bodies that identified climate change as a material issue fully completed a strategy disclosure.
- Climate scenario analysis was limited in 2025-26 central government reporting. When bodies completed it, it provided valuable and actionable insight into future resilience and cost pressures.

TCFD theme: Metrics and Targets

- Of 15 central government bodies who decided that climate was material, only 10 provided a relevant metric, and only five provided a target. Metrics and targets help a reader understand and assess how bodies are managing their climate risks. This should be a focus for these bodies in future reports.
- Most central government bodies are not disclosing Scope 3 emissions. This reporting may be useful to bodies where it helps them identify emissions they can influence and that are material to primary users. Annual reports may give a misleading account of emissions reduction where they omit the most material sources of emissions.

TCFD theme: Governance and Risk Management

- We observed improvement in governance and risk management disclosures of central government in 2025-26 compared with 2024-25, an encouraging sign that climate-related disclosures are maturing.

Scope of climate-related disclosures

- Bodies took different approaches to assessing and disclosing climate-related risks. Narrow assessments may omit information that readers expect – for example, information about key climate change responsibilities – weakening scrutiny and accountability.
- Parent departments did not consistently show how they oversee group-wide climate risks.



Actions readers of this insights report can take

Members of Parliament:

- Use the information in climate-related disclosures to question the government about its exposure to climate-related risks, its performance on climate adaptation and mitigation measures, and the implications for service resilience.
- Ask departments what they know about the potential financial impacts of climate-related risks, what remains uncertain, and how they are factoring those risks and uncertainties into spending decisions.
- Consider whether these disclosures give you the information you need to hold bodies to account for their performance on climate issues.

Members of government boards and audit committees:

- Challenge management on the scope of your body's climate risk assessment – does it really provide senior officials and users of your annual report with the information they need?
- Review whether climate risk ownership is clear and at the appropriate level.
- Prioritise risk assessment and scenario analysis where the outcomes will inform decisions.
- Consider whether your organisation is using the right metrics to manage your most material climate-related risks.

Preparers of TCFD disclosures:

- Start with a clear materiality judgement and an appropriate scope for your climate-related disclosures.
- Explain the impact that climate-related risks could have on your activities, don't just define the hazard.
- Be transparent about where you are on your climate-reporting journey, about uncertainties and data limitations.
- Consider whether emissions in your wider carbon footprint are likely to be material to your organisation, and ensure reporting systems are in place.
- Connect climate disclosures with the rest of the annual report.

Why do climate-related disclosures matter?

Climate change is already affecting the UK. It creates growing risks to public services, infrastructure and economic activity. The independent Climate Change Committee has repeatedly warned that the UK is not adequately prepared for the impacts of climate change and that timely investment is needed to avoid higher future costs and damages.

Parliament and senior decision-makers in government need practical information on climate-related risks and how they are being managed. To safeguard long-term value for money, they need to understand which risks are most significant, how resilient public services are, and which interventions can deliver the greatest benefits.

The frameworks for reporting

HM Treasury (HMT) has introduced reporting requirements for central government aligned with the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD framework asks bodies to report on the most significant climate-related risks and opportunities they have identified in their annual reports. The reporting year 2025-26 is the first year that all disclosures in the framework are required for central government bodies, following a three-year phased implementation period (**Figure 1** on pages 8 and 9). The Department for Business, Energy & Industrial Strategy mandated TCFD-aligned reporting for larger companies in 2022 and published non-binding guidance to support companies.

These frameworks are both based on the TCFD recommendations, with some differences in application. Key features of the HMT framework include:

- materiality criterion: only bodies for whom climate change is a principal risk or otherwise material are required to provide strategy disclosures and some metrics and targets; and
- 'comply or explain': central government bodies above the reporting threshold must make the required disclosure or explain why they have chosen not to comply.

The Companies Act also allows directors to omit disclosures where they believe that they are not necessary for an understanding of the company's business. Where they have done this, they must provide a clear and reasoned explanation.

Figure 1

HM Treasury's phased implementation of Task Force on Climate-related Financial Disclosure (TCFD)-aligned reporting into central government annual reports, 2023-24 to 2025-26

The four thematic areas of TCFD-aligned disclosure are being implemented into central government annual reporting over a three-year timeframe

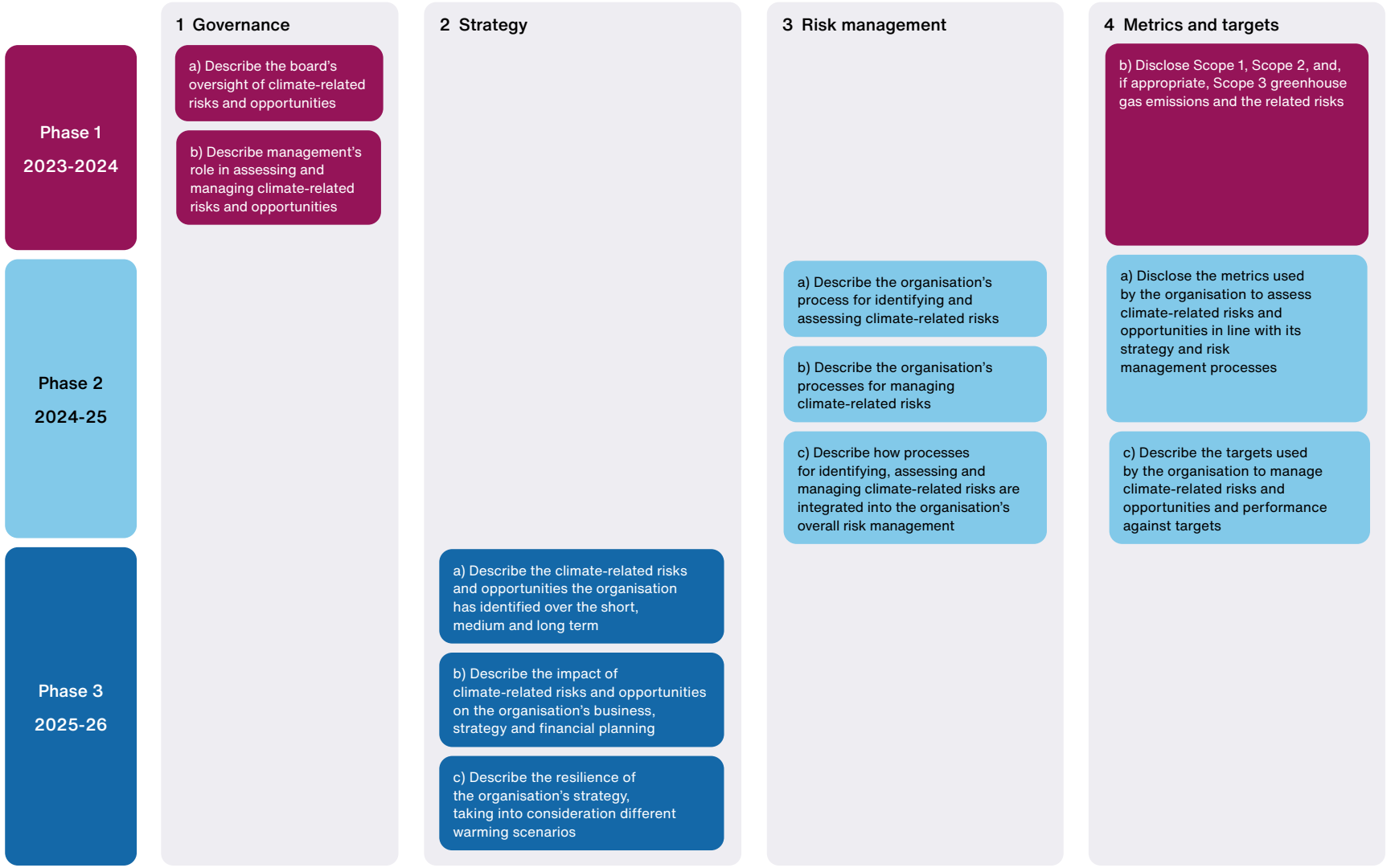


Figure 1 *continued*
HM Treasury's phased implementation of Task Force on Climate-related Financial Disclosure (TCFD)-aligned reporting into central government annual reports, 2023-24 to 2025-26

Notes

1 Central government bodies fall within the mandatory scope of TCFD-aligned reporting if they are a ministerial or non-ministerial department, or another central government body with more than £500 million income or more than 500 full-time equivalent employees.

2 All bodies mandated to include TCFD-aligned disclosure must report on governance, risk management, and Scope 1 and 2 greenhouse gas emissions. Disclosures on strategy, other metrics and targets, and Scope 3 greenhouse gas emissions are required only if climate change is a principal risk or otherwise material.

3 Scope 1 greenhouse gas emissions are all direct emissions, Scope 2 greenhouse gas emissions are from consumption of purchased electricity, heat or steam, Scope 3 greenhouse gas emissions are all other indirect emissions (see Figure 9).

Source: National Audit Office analysis of HM Treasury documentation

In November 2025, we reported on the implementation of climate-related reporting in central government annual reports.[1] For the bodies that the National Audit Office (NAO) audits, TCFD-aligned disclosures are required for:

- central government bodies with at least £500 million operating income or funding received or with at least 500 full-time equivalent employees; and
- companies with more than £500 million turnover and more than 500 employees, reporting under the Companies Act.

In our 2025 report, we estimated that HMT guidance required at least 117 central government bodies to prepare climate-related financial disclosures. An additional 23 bodies audited by the NAO were required to disclose under the Companies Act.

1 Comptroller and Auditor General, *Implementation of climate-related reporting in central government annual reports*, Session 2024–2026, HC 1383, National Audit Office, November 2025.

Roles and responsibilities

HMT has mandated climate-related disclosures and produced guidance for central government. It is not responsible for the quality of government bodies' disclosures or the adequacy of their risk assessment processes.

Parliament is the primary user of government annual reports, including climate disclosures.

Departmental Accounting Officers are responsible for the annual report and accounts and for determining that it is fair, balanced and understandable. Departmental boards support the Accounting Officer and should assure themselves that governance, risk management and internal-control arrangements are effective.

The NAO reads TCFD-aligned disclosures within annual reports as part of our audit of the financial statements of government departments and other public bodies. Auditors check that reports contain the required disclosures and that these 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, Innovation, Science and Trade is responsible for annual climate-related financial disclosure requirements applicable to UK companies under the Companies Act 2006.

Which climate change issues need to be disclosed?



Quick overview of climate-related risk assessment

All bodies must make decisions about the significance of the information they include in their annual report. Central government bodies following HM Treasury's (HMT's) guidance are explicitly required to assess and disclose whether climate change is a principal risk or otherwise material to them. This drives the level of disclosure required, with full disclosures mandated only when climate change is material.

25 central government bodies in our sample were required to disclose their assessment of the materiality of climate-related risks and explain the basis for that assessment.

Key takeaway:

- **Central government bodies took different approaches to assessing and reporting their climate-related risks. This resulted in varied conclusions as to how significant they considered climate change to be for their organisations. Six departments who own climate-related risks in the National Adaptation Programme disclosed that they did not consider climate change to be a principal risk.**

Materiality

HMT guidance states that bodies should consider users' needs for information when assessing what is most important, or material, to include in their annual report disclosures. Material information is information that could reasonably be expected to influence decisions made by primary users of the annual report and accounts. Parliament is the primary user of central government annual reports. Other users include HMT itself, central departments, senior officials within departments, the public and researchers.

Risk assessment

All central government bodies within the scope of TCFD requirements must state whether climate is a principal risk and if not, explain the rationale. HMT's guidance on risk management in government defines a principal risk as a risk that can seriously affect the performance or reputation of the organisation. This assessment should consider the body's strategic objectives and other significant risks that it faces.

If a central government body has assessed that climate change is not a principal risk, it must consider whether climate change is a significant component of other principal risks or is otherwise material. Factors that might suggest that climate change is a material issue, even when not identified as a standalone principal risk, include:

- the sector being highly exposed to climate change hazards or regulation; and
- the body being responsible for climate-related outcomes at a national level.

If a body has assessed that climate change is not material, it must explain why.

For central government bodies, the assessment of whether climate change is a principal risk, or otherwise material, determines how much climate-related reporting the body must provide. To keep reporting proportionate, the body may omit the strategy and extended metrics and targets disclosures if climate change is not material. This makes the explanation of the materiality judgement critical. Minimal disclosure may meet technical requirements. However, without a clear explanation of why climate change is not material, readers cannot judge whether the body genuinely has limited exposure to climate-related risks or whether its assessment of those risks is still immature.

Insights from our review

We reviewed the disclosures of 25 bodies that are required to follow HMT's guidance. Of these, 14 clearly identified that climate change was a principal risk or otherwise material. In one case, a body did not state its materiality judgment but chose to provide full disclosures. Of the remaining bodies, 10 assessed that climate change was not a principal risk or otherwise material. We judged that eight included a clear rationale. For example, the Ministry for Housing, Communities & Local Government (MHCLG) explained that, although climate risks could affect the built environment, local resilience and local government systems, it judged these risks were either managed through existing frameworks or owned by its delivery bodies. It did not consider them to have a sufficiently direct or material impact on MHCLG's own financial position or overall risk profile to warrant classification as a principal risk.

To sense-check the relevance of climate change risks to different government departments, we compared departmental disclosures with the Third National Adaptation Programme (NAP3). This covers actions planned by the government to adapt to the impacts of climate change between 2023 and 2028. It sets out 61 climate-related risks and opportunities for the UK, and the central government department responsible. There are 12 departments that own risks under this framework.

We found that six departments, owning 49 of these risks and opportunities between them, did not assess climate change to be a principal risk or otherwise material and therefore produced only a partial TCFD disclosure. These included the Department for Environment, Food & Rural Affairs (Defra), which owns 29 risks (**Figure 2** overleaf). The NAP is part of a broader landscape of climate-related reporting that helps the government monitor progress towards national goals for climate change mitigation and adaptation. The decision of an individual organisation about how material climate change is to them is separate to NAP risk ownership and does not mean that climate change is automatically a principal risk for that body, but we have included the information as context.

Of the central government bodies whose disclosures we reviewed, five changed their principal risk decision between 2024-25 and 2025-26.

- Three bodies disclosed climate as a principal risk or otherwise material for the first time (HMT, the Department for Work & Pensions, HM Courts & Tribunals Service).
- Two departments removed climate risk from their principal risk portfolios (the Department for Business and Trade (DBT), Home Office).[2] DBT had described "Climate and Environment Driven Economic Transformation" as a strategic risk in its 2024-25 annual report.

A further four bodies (Cabinet Office, NHS England, UK Atomic Energy Authority and UK Research and Innovation) clarified their principal risk decision.

We considered transparency and clarity to be the most important indicators of quality when we reviewed the 2025-26 disclosures. We judged that materiality assessments were compliant with HMT guidance where bodies clearly explained which factors they had considered. As TCFD reporting continues to mature over the coming years, we expect that a more consistent position will be reached across central government about which information is most useful to Parliament, and therefore what information bodies must disclose. This will improve the comparability of the disclosures and their value for external scrutiny.

2 DBT was renamed to the Department for Business, Innovation, Science and Trade as part of Machinery of Government changes in July 2026 and absorbed some of the previous functions of the Department of Science, Innovation and Technology. We refer to DBT when describing the department's TCFD disclosures in the annual report and accounts for 2025-26, as this was the name and role of the entity during the period covered by the reporting.

Figure 2

Comparison of government departments' climate risk materiality decisions and National Adaptation Programme (NAP) risks

Several central government departments responsible for NAP risks did not judge climate change to be a material issue in their 2025-26 annual reports

Body	Number of NAP risks or opportunities the department has lead or joint responsibility for	Climate change disclosed as a principal risk or otherwise material in the 2025-26 annual report?
Department for Environment, Food & Rural Affairs (Defra)	29	No
Department for Energy Security & Net Zero (DESNZ)	10	Yes
Department for Business & Trade	7	No
Department for Transport (DfT)	6	Yes
Department for Science, Innovation & Technology (DSIT)	5	No
Foreign, Commonwealth & Development Office	5	Yes
Department of Health & Social Care	4	No
Ministry of Housing, Communities & Local Government	3	No
HM Treasury	2	Yes
Department for Culture, Media & Sport	1	No
Cabinet Office	0	No
Ministry of Defence	0	Yes
Department for Work & Pensions	0	Yes
Home Office	0	No

Notes

1 There are 61 climate-related risks in the NAP. Where the responsibility for these risks is shared between departments, they have been counted in each of those departments. For example the risk to infrastructure from flooding (risk I2) is counted in Defra, DESNZ, DfT and DSIT as each department has responsibility for different parts of critical national infrastructure.

2 Each named risk has been counted once, for example NAP risk I2 telecoms (DSIT) and I2 data (DSIT) are counted as one DSIT risk.

3 Some risks in the Programme are not allocated to named departments, but are cross-government. These are not included in the table.

4 The scope of Defra's TCFD reporting in 2025-26 was limited to estates and operations.

5 DBT and DSIT were merged as part of the Machinery of Government Changes in July 2026. We refer to DBT and DSIT here because these were the names of these departments in the period covered by the 2025-26 annual report.

Source: National Audit Office analysis of National Adaptation Programme 3 Annex 1 and 2025-26 departmental annual reports

Strategy disclosures

Quick overview of the Strategy theme of climate-related disclosures

The Task Force on Climate-related Financial Disclosures (TCFD) recommended that bodies structure their disclosures around four thematic areas: **Strategy**, Metrics and Targets, Governance and Risk Management.

The strategy disclosures are required for the first time in 2025-26 for central government bodies where climate is a principal risk, a component of a principal risk, or otherwise material. They have been required for certain companies since 2022. These disclosures are among the most useful and interesting parts of sustainability reporting. They should enable a reader of the annual report to understand:

- the body's principal climate-related risks and opportunities and how they may evolve over time;
- how these might impact the body's strategy, operations and service delivery, business model, objectives, and financial planning; and
- how resilient the body's strategy is to different climate change scenarios.

Some 21 bodies from our sample were required to provide strategy disclosures in 2025-26, comprising 15 central government bodies and six companies. In the first year of mandatory reporting for central government bodies, only five produced a full strategy disclosure, with the other 10 choosing to explain rather than comply for all or part of the disclosure.

Key takeaways:

- **Many climate-related risks disclosed in 2025-26 annual reports were common to different parts of government.** Flooding was the climate-related risk most frequently reported by the bodies in our sample. For example, 89% of prisons were disclosed as high risk of flooding in 2025-26. Overheating, and paying for transition to lower carbon operations, were also identified as significant risks.

- **Strategy disclosures are variable in quality.** In this first year, few central government bodies fully explained the impacts of climate-related risks on operations, strategy and financial planning. Only five of the 15 central government bodies that identified climate change as a material issue fully completed a strategy disclosure.

- **Climate scenario analysis was limited in 2025-26 reporting. When bodies completed it, it provided valuable insight into future resilience and cost pressures.**

Material climate-related risks and opportunities

Physical climate-related risks

Most bodies we reviewed identified physical climate-related risks, particularly flooding. Of the bodies in our sample, 17 identified coastal and surface water flooding, or extreme precipitation, as a risk. HM Prison & Probation Service (HMPPS) and HM Courts & Tribunals Service (HMCTS) reported that 89% of prisons, 35% of probation sites and 13% of courts were at a high risk of flooding. National Highways (NH), which is responsible for the strategic national road network, noted that 26% of roads had an observed susceptibility to flooding.[3] NHS England (NHSE) reported 391 incidents of flooding at NHS sites in 2024-25. Flooding and overheating are already causing disruption to healthcare delivery, including delays to patient care, and these are set to increase even in a lower-emissions scenario.

Overheating was the second most identified physical climate-related risk (13 bodies). Prisons and health services were identified as vulnerable, with heatwaves potentially causing serious risks to health and safety. Implications included:

- increased risk of violence in prisons in extreme heat, and deteriorating offender behaviour and staff wellbeing from long-term overheating reported by HMPPS in 2025-26; and
- estimated additional costs of heat-related mortality in the 2020s at £6.8 billion per year reported by NHSE, with projected excess deaths of 10,000 a year by 2050 in a higher warming scenario.[4]

Many bodies noted the potential impacts of extreme weather, including wildfires and storms, on public sector infrastructure. The Department of Health & Social Care, the UK Atomic Energy Authority, Northern Trains (Northern), HMPPS and the Government Property Agency (GPA) all raised the potential for power outages or cascading infrastructure failures. The most frequent material climate-related risks identified in strategy disclosures are summarised in **Figure 3**.

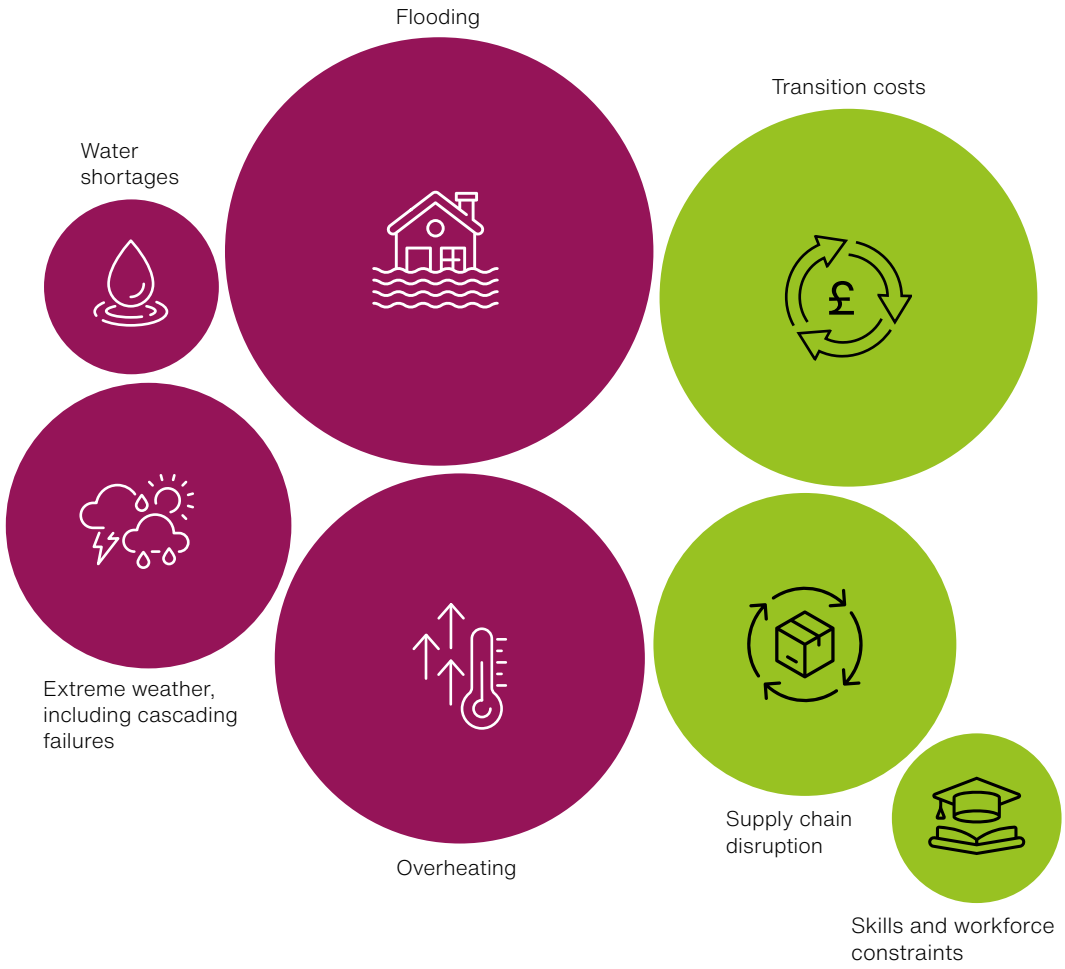
3 NH identified the observed susceptibility of the road network to flooding as a metric in its TCFD disclosure. The results of this metric are reported publicly in annual Performance Monitoring Statements, which are cross-referenced in the TCFD report. In 2025-26, 74% of the road network did not have an observed susceptibility to flooding.

4 Estimated by the UK Health Security Agency.

Figure 3

Climate-related risks reported in our sample of 2025-26 annual reports

In our sample of bodies providing Task Force on Climate-related Financial Disclosure strategy disclosures, bodies identified physical and transition risks, with flooding, overheating, and transition costs the most frequent concerns



Notes

1 Physical risks are those which arise from direct climate impacts and can be acute or chronic. Transition risks are those which arise from moving to a lower carbon, climate-resilient economy.

2 'Transition costs' refers to costs incurred in the transition to a lower carbon economy and can include a range of potential expenses, for example the costs of investing in lower carbon technology, higher energy costs, costs of compliance with increased regulation, etc.

3 Supply chain disruption can be caused both by direct climate impacts and by the transition to a lower carbon economy.

Source: National Audit Office analysis of a sample of 2025-26 public sector annual reports

Transition climate-related risks

Government bodies also face risks as the economy moves to lower-carbon and more climate-resilient models. The transition risks most frequently identified included the financial cost of transition, and supply chain disruption. Anticipated transition costs included the costs of: switching to lower-carbon energy sources, including investments in new technology; complying with new regulations; and of fluctuations in the price and availability of materials, water, energy and specialist skills.

We found that bodies did not articulate transition risks as well as physical risks in the strategy disclosures. In the disclosures we reviewed, while several transition risks were listed, few specifics were given, unlike physical risks, which were explained in greater detail.[5]

Between 2024-25 and 2025-26, some bodies missed or changed their decarbonisation targets or did not set any. For example, UK Research and Innovation changed its target of net zero for owned operations from 2040 in 2024-25 to 2050 in 2025-26, to align with the government's 2050 net zero target.

Climate-related opportunities

Of the bodies whose disclosures we reviewed, 15 identified climate-related opportunities. The most common were saving money through efficiency improvements and investing in green technology. The Department for Work and Pensions (DWP) identified growth in green jobs increasing productivity across the UK, while the Department for Science, Innovation & Technology noted the potential for encouraging innovation in low-carbon technologies. HMPPS noted that green upskilling could help offender rehabilitation and employability. Two bodies responsible for opportunities in the National Adaptation Programme did not disclose any climate-related opportunities (the Department for Business & Trade and the Foreign, Commonwealth & Development Office).

We expect that, for most central government bodies, climate-related risks will be significantly more material than opportunities. Where opportunities are not material and can be reported elsewhere, this is preferable to avoid the risk that disclosures are seen as greenwashing.

5 Our sample of disclosures includes many public sector bodies with a role in managing infrastructure. These bodies are more likely to have material exposure to physical risks.

Overall compliance

Our review highlighted that strategy disclosures proved challenging for many bodies. This is because they require detailed risk information, and scenario analysis. Of 15 central government bodies required to provide strategy disclosures, 10 chose to rely on 'explain' rather than 'comply' for at least part of their disclosure. Of these, one central government body produced very limited strategy disclosures. We also observed some weaknesses in the strategy disclosures of companies, for example in limited or unclear information about the impact of climate change on their future strategy.

Impact of climate risk on operations, strategy and financial planning

Operational impacts

Many bodies included details for the first time in 2025-26 about how the risks around extreme weather, particularly flooding and overheating, would result in operational disruption. For example, NHSE, DWP, the Ministry of Defence (MoD) and HMPPS reported risks potentially including: closed, damaged, or poorly functioning sites; delays or failures to deliver key public services; worsening conditions for staff and service users; increased demand for services; and rising costs. MoD displayed these potential impacts in a graphic (**Figure 4** overleaf).

These problems were sometimes significant in the transport sector. The rail industry reported flooding, high winds and landslides leading to delayed and sometimes cancelled services due to safety concerns. NH identified potential effects on the national road network, from surface flooding and landslides to softening road surfaces and structural damage. NH reported that most of these risks could have a major impact by 2030 in an unmitigated climate scenario (**Figure 5** on page 21).

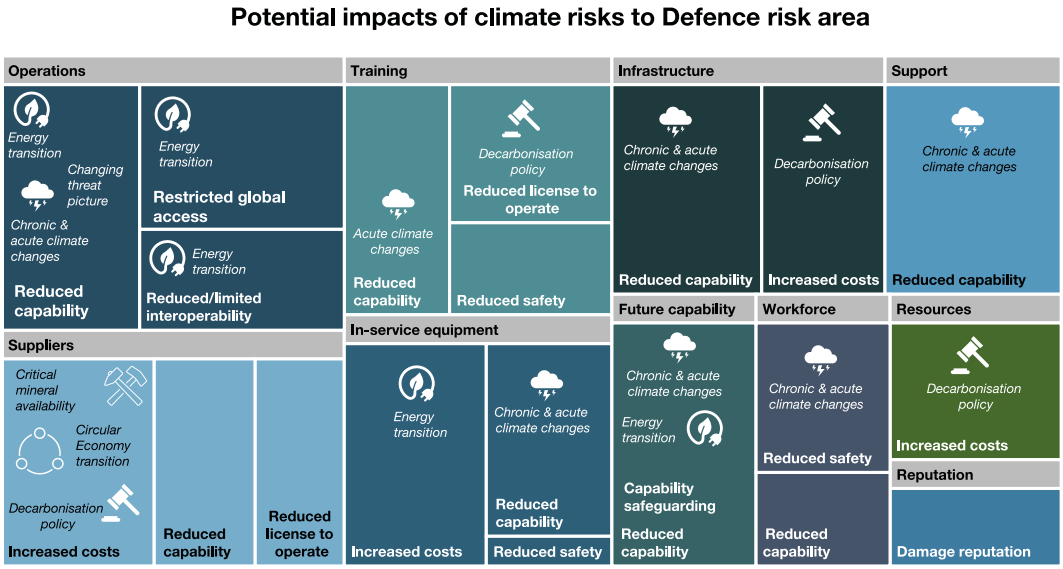
Many bodies are expecting risks to increase significantly over the next 20 years, with some impacts already being felt. Insurance for weather-related disruption, exacerbated by climate change, has added 0.5% (£329m) to Network Rail (NR)'s running costs over the past decade, while Northern reported £10.8 million in losses from service disruption in 2025-26.

Annual report extract

Figure 4

Ministry of Defence (MoD) 2025-26

MoD identified and disclosed potentially material impacts of climate change including reduced operational capability, infrastructure damage, worsening workforce safety and rising costs



Source: Ministry of Defence Annual Report and Accounts 2025-26, page 78

Other bodies reported impacts on service delivery that include productivity losses. NH reported that potential reductions in staff productivity due to heat stress could have a moderate impact by 2030 and a major impact by 2050 without mitigation. Some bodies pointed to risks around workforce capability. Homes England, NH and the Nuclear Decommissioning Authority (NDA) all disclosed skills shortages in a decarbonising economy as a potential barrier to delivery. DWP identified that there could be skills mismatches in the transition economy, leading to increased demand for benefits and weaker labour market outcomes in the short to medium term.

Annual report extract

Figure 5

National Highways Ltd 2025-26

National Highways identified and disclosed analysis of the impacts of climate change on the strategic road network, with the risk level rated as major for a majority of hazards by 2030

Physical Climate Risk Scores (Matrix-Based)

Physical risks and unmitigated risk score	2030	2050	2080	
			+2°C scenario	+4°C scenario
Excess surface water caused by extreme rainfall leading to unsafe driving conditions and working conditions.				
Heat stress caused by high temperatures leading to unsafe driving and working conditions, and reduced staff productivity.				
Debris and tree windthrow from high winds leading to unsafe driving and working conditions.				
Flooding, debris flows and scour caused by increased precipitation leading to structure damage or failure.				
Increased wind loads and windthrow leading to damage to structures and buildings.				
Overwhelming of drainage system causing flash flooding, leading to increased saturation and destabilisation, excessive erosion, landslides and damage to assets.				
Degradation of assets due to shrink-swell cycles of higher plasticity clay soils.				
Increased frequency of high temperatures leading to pavement damage.				
Risk level	Severe	Major	Moderate	Minor

Note

1 These risks assume an un-mitigated climate scenario. National Highways disclosed that it is actively progressing targeted planning and mitigation actions to reduce exposure and impact.

Source: National Highways Ltd Annual Report and Accounts 2025-26, page 47

Future financial impacts

Most bodies expect some financial impact from the risks they identified, although bodies were often not able to cost these, even approximately. Bodies anticipate costs to arise from damage to assets and infrastructure, driven by physical damage from extreme weather, as well as from chronic shifts to higher temperatures and more precipitation. Bodies also expect higher maintenance and repair costs, potential asset upgrades, and transition costs. Many bodies expect increased operating costs, including energy charges. Bodies controlling significant property or infrastructure are particularly concerned with decarbonisation and adaptation costs. For example, in 2025-26, GPA invested £55.9 million on lifecycle replacement to improve condition and build asset resilience and £25.8 million on decarbonisation measures (up from £13.4 million and £19.8 million respectively in 2024-25).

HMT guidance encourages, although does not require, bodies to disclose quantified financial risks "where practicable and useful", as this supports better financial planning and decision-making. The Companies Act similarly does not mandate financial quantification, but the official guidance recommends that the impacts of risks should be "as granular as is necessary to understand the impact of crystallisation of that risk and should be specific". In our 2025 report on the implementation of TCFD reporting in government annual reports, we found that bodies who quantified the costs of climate-related risks found that it improved their financial management, for example by saving them money. Bodies should weigh up the costs of undertaking this analysis against the expected benefits. Of the 21 strategy disclosures we reviewed, five central government bodies and three companies included some quantification of specific financial impacts: the Environment Agency (EA), GPA, NR, NHSE, DWP, NDA, Northern, and London North Eastern Railway.

Estimates of future financial impacts under different climate scenarios can be highly uncertain, and precise figures can give decision-makers false confidence if their limitations are not clear. However, indicative estimates can still help communicate the scale of risk exposure and support better planning. Some bodies have been able to produce indicative assessments of potential financial impacts (see example from NDA in **Figure 6**), which can help readers of the accounts understand resource implications even without precise costings.

Annual report extract

Figure 6

Nuclear Decommissioning Authority (NDA), 2025-26

NDA's risk-scoring graphic helps readers understand the relative severity and potential financial impacts of its identified material climate-related risks in different scenarios

Climate-related risks

Risk Type*	Risk	Green Horizon				Critical Collapse			
		Financial risk score							
		Now	2030s	2050s	2080s	Now	2030s	2050s	2080s
Transition market	Energy market prices and volatility								
Transition market	Inability to recruit and retain SQEP								
Policy and legal	NDA funding								
Transition market	Supply chain disruption and green premiums								
Physical chronic	Change in average precipitation								
Physical chronic	Sea level rise								
Physical acute	Extreme precipitation								
Physical acute	Extreme high temperature								

Key for risk score:

Very low	Low	Moderate	High	Very High

This scoring is aligned to the NDA Risk Scoring Matrix (see page 73) using likelihood and financial impact.

Note

1 SQEP: Suitably Qualified and Experienced Person. This acronym is used in the nuclear industry to describe someone whose qualifications, training and experience are appropriate for a particular role or task.

Source: Nuclear Decommissioning Authority Annual Report and Accounts 2025-26, page 27

Impacts on financial reporting

Climate-related risks disclosed under TCFD can impact financial performance and position. Possible financial impacts include reduced asset values, increased impairment and depreciation charges, and increased maintenance and repair costs. Bodies may find that existing assets become obsolete sooner than expected, affecting asset value and useful economic life. Estimates in financial statements, for example provisions, may also be affected by changes in the timing or value of future cashflows. Given that the scope of TCFD reporting spans financial, operational and strategic risks, climate-related disclosures should connect to and be consistent with the financial statements.

Climate scenario analysis

Both HMT and Companies Act guidance ask organisations to consider the resilience of their strategy in different climate-related scenarios, although the precise requirements vary. Scenario analysis can be challenging, because organisations must translate uncertain future climate, economic and policy conditions into meaningful assessments of risk and impact. Climate models can provide valuable information on potential hazards, but understanding the risks also requires analysis of an organisation's exposure, vulnerability and operating context. However, quantified modelling is not required by either framework, and bodies do not need sophisticated modelling to benefit from scenario analysis. Public sector guidance emphasises that climate scenario analysis can start with information the body already holds, focus on the risks most relevant to decision-making, and improve iteratively as data and capability mature.

Nine of the central government bodies we reviewed chose to 'explain' rather than 'comply' to some extent in responding to the scenario analysis requirement. Most central government bodies, and all the companies, reported that they had carried out some scenario analysis; however, in many cases, this work was ongoing. Some central government bodies did not disclose the resulting assessment of the resilience of their strategy to different climate scenarios.

Where bodies completed scenario analysis, it gave decision-makers useful information about future cost pressures and service resilience. For example, EA projected that in a high climate change scenario the optimum investment in flood and coastal erosion risk management would increase to an annual average of £920 million instead of £860 million in a medium scenario. At the same time, this investment would also become less effective as the expected reduction in property damage would decrease from 12% to 4%. EA also used cost modelling to restructure its incident response service, which on its current footing would have been financially and operationally unsustainable within the next decade.

Northern found that in a high emissions scenario (heading to +4.3°C by 2100), financial losses from service disruption would escalate to £16.6 million annually by the 2050s and £32.6 million by the 2070s. Coastal train routes in East Yorkshire and the Humber, and along the Cumbrian coast, would become inoperable or financially unviable and result in the loss of £158 million a year in economic benefits to these areas, for example through reduced work and leisure travel. Northern noted that risks would be similar under a 2.8°C scenario, but the magnitude and rate of impacts would be reduced.

Useful insights were reported from qualitative scenario analysis. For example, HMPPS identified the 2030s as a crunch decade in all climate scenarios. During this period, the physical and financial impacts of climate change are expected to increase. At the same time, investment requirements for technological change are expected to peak, and HMPPS will face challenges in transitioning to net zero operations. It plans to use scenario analysis as the basis for future property investment planning, noting that early investment should help reduce risk and ease cost pressures in the future.

Most of the central government bodies whose disclosures we reviewed in 2025-26 had not developed their risk assessment and scenario analysis sufficiently to understand their future resilience well. This is understandable in the first year of full reporting for central government. However, as these disclosures mature, scenario analysis should increasingly support government bodies as they make planning and investment decisions.

Metrics and Targets

Quick overview of the Metrics and Targets theme of climate-related disclosures

The Task Force on Climate-related Financial Disclosures recommended that reports be structured around four thematic areas: Strategy, **Metrics and Targets**, Governance and Risk Management.

HM Treasury's guidance requires bodies to disclose the metrics used to assess climate-related risks, and performance against targets to monitor and manage those risks, when they have identified them as material. Companies reporting under the Companies Act must also include the key performance indicators (KPIs) they use to assess progress against targets to manage their climate-related risks.

Some 21 bodies in our sample (15 central government bodies and six companies) were required to provide risk-specific metrics and targets disclosures.

Key takeaway:

- **Of 15 central government bodies who decided that climate was material, only 10 provided a relevant metric, and only five provided a target. Metrics and targets help a reader understand and assess how bodies are managing their climate risks. This should be a focus for these bodies in future reports.**

Risk-specific metrics

Out of 15 central government bodies required to include risk-related metrics, 10 did so, with the remaining five choosing to 'explain' rather than 'comply'. All companies provided relevant KPIs, although some noted that these were under review. These metrics help a reader understand a body's performance in managing climate-related risks and opportunities (**Figure 7**).

Figure 7

Bespoke climate-related metrics reported by central government bodies in 2025-26

Risk-specific metrics help readers understand the exposure of central government bodies to their most material climate-related risks, and their performance in managing climate-related risks and opportunities

Department for Energy Security & Net Zero (DESNZ)

304,000

estimated individuals directly employed in the UK low-carbon and renewable energy sector in 2024 (reported in 2025-26)

HM Prison and Probation Service (HMPPS)

89%

percentage of prison sites at high or very high risk of flooding, present day

HM Prison and Probation Service (HMPPS)

71%

percentage of prison sites at high or very high risk of overheating, 2020 to 2039 (reported in 2025-26)

Ministry of Defence (MoD)

110 days

estimated per year of wildfire risk, which can impact army readiness through disruption to training schedules

HM Courts & Tribunals Service (HMCTS)

76%

percentage of courts assets at high or very high risk of overheating from increased maximum summer temperatures

Environment Agency (EA)

981

total flood warnings issued in 2025-26

Notes

1 The MoD disclosure is the baseline assessment of wildfire risk exposure based on a high-emission scenario, which assumes a slow rate of technology adoption.

2 The HMPPS overheating disclosure is the assessment of exposure to overheating risk in a low warming scenario between 2020 and 2039 as at 2025-26 reporting.

3 The HMCTS disclosure is the assessment of exposure to overheating risk in a low warming scenario as at 2025-26 reporting.

Source: National Audit Office analysis of government bodies' climate-related financial disclosures

In our review of 2025-26 disclosures, we judged metrics to be useful for decision-making if they were relevant to a material risk or opportunity, measurable, and related to an outcome the body could meaningfully influence. Of those bodies who did include risk-specific climate-related metrics, very few included metrics that would help them assess how well they are managing their risks. Most metrics simply report on how exposed bodies are to climate hazards. This area should be a focus for continued improvement.

Some bodies linked their climate risk exposure to their existing KPIs. This works well for bodies that are already actively monitoring the condition and resilience of critical national infrastructure. For example, Network Rail monitors rail delays caused by different weather types. The railway network is already experiencing the impacts of climate change on weather, including an increase in the severity and frequency of extreme weather events (**Figure 8**).

Annual report extract

Figure 8

Network Rail Ltd 2025-26

Network Rail reports a key performance indicator of the causes of delay minutes from different weather types



Source: Network Rail Ltd Annual Report and Accounts 2025-26, page 84

Target setting

Most bodies struggled to set targets for managing their climate-related risks. Of 15 central government bodies who identified climate as a material risk, five disclosed a target to manage that risk. The TCFD framework sets out that targets should be meaningful indicators of progress, not arbitrary figures attached to every disclosed metric. Target setting is difficult because meaningful targets require a mature understanding of the risk, the ability to influence the outcome, and a realistic expectation of what can be achieved. However, without a target, benchmark or trend data, readers lack the context needed to assess performance and hold bodies accountable for progress.

Data quality

In our 2025 report,[6] many bodies we spoke to highlighted data availability and quality as a key concern for the quality of future reporting. In nine of the 2025-26 disclosures that we reviewed, central government bodies explicitly reported ongoing challenges with sustainability data. These problems included:

- difficulty obtaining data from suppliers, grant recipients or service providers;
- difficulty consolidating data from different systems;
- gaps in data coverage;
- scale and diversity of operations; and
- need for improved internal data quality and assurance processes.

Reliable sustainability data is essential if climate-related disclosures are to be trusted. Without it, there is a risk that reporting demonstrates compliance, instead of supporting decisions on risk, resilience and resource allocation. Our review found some positive signs of improvement in data quality. Six central government bodies reported that they obtained some form of support or third-party validation over the data disclosed in their climate performance metrics.

6 Comptroller and Auditor General, *Implementation of climate-related reporting in central government annual reports*, Session 2024–2026, HC 1383, National Audit Office, November 2025.

Emissions reporting



Quick overview of emissions reporting requirements

Emissions reporting remains essential to holding bodies accountable for their sustainability performance. All bodies following HM Treasury (HMT)'s guidance are required to report on their Scope 1 and 2 greenhouse gas emissions, and on Scope 3 emissions if they deem these material. Large UK companies are also required to report greenhouse gas emissions under Streamlined Energy and Carbon Reporting (SECR) requirements. .

Emissions disclosures in annual reports should help a reader understand:

- performance in reducing emissions, including whether the body has met targets in line with the UK's net zero target for 2050; and
- which sources of emissions are most significant and will be hardest to reduce to meet targets.

All 31 bodies in our sample were required to disclose their 2025-26 emissions.

Key takeaway:

- **Most central government bodies are not disclosing Scope 3 emissions. This reporting may be useful to bodies where it helps them identify emissions they can influence and that are material to primary users. Annual reports may give a misleading account of emissions reduction where they omit the most material sources of emissions.**

Central government bodies have been required to disclose their Scope 1 and 2 domestic greenhouse gas emissions in their annual reports since 2011-12, through HMT's Sustainability Reporting Guidance. This drew on the Greening Government Commitments (GGC) framework, which focused on the government's estate and operations. HMT's TCFD application guidance broadened the requirements of annual report emissions reporting to include overseas emissions, and Scope 3 emissions where material (subject to 'comply or explain'). Emissions reporting is also required for larger UK companies. All the companies in our sample are required to report UK energy use (Scopes 1 and 2), while Scope 3 reporting is voluntary but strongly encouraged where these are a material source of emissions. Scope 1, 2 and 3 emissions are defined in **Figure 9** overleaf.

The government was due to publish a new set of GGC targets for 2025 to 2030, including emissions reduction targets for central bodies, but it has not done so. In the absence of GGC targets, around two-thirds of central government bodies that we reviewed did not include an emissions reduction target in their annual report disclosure, so it was not possible to assess the success of their emissions reduction performance from their disclosure. The remaining third of bodies have set their own targets. For example, the NHS in England has a net zero target for all directly controlled emissions by 2040, and for all emissions that the NHS influences by 2045, including some Scope 3 emissions.

Wider carbon footprint

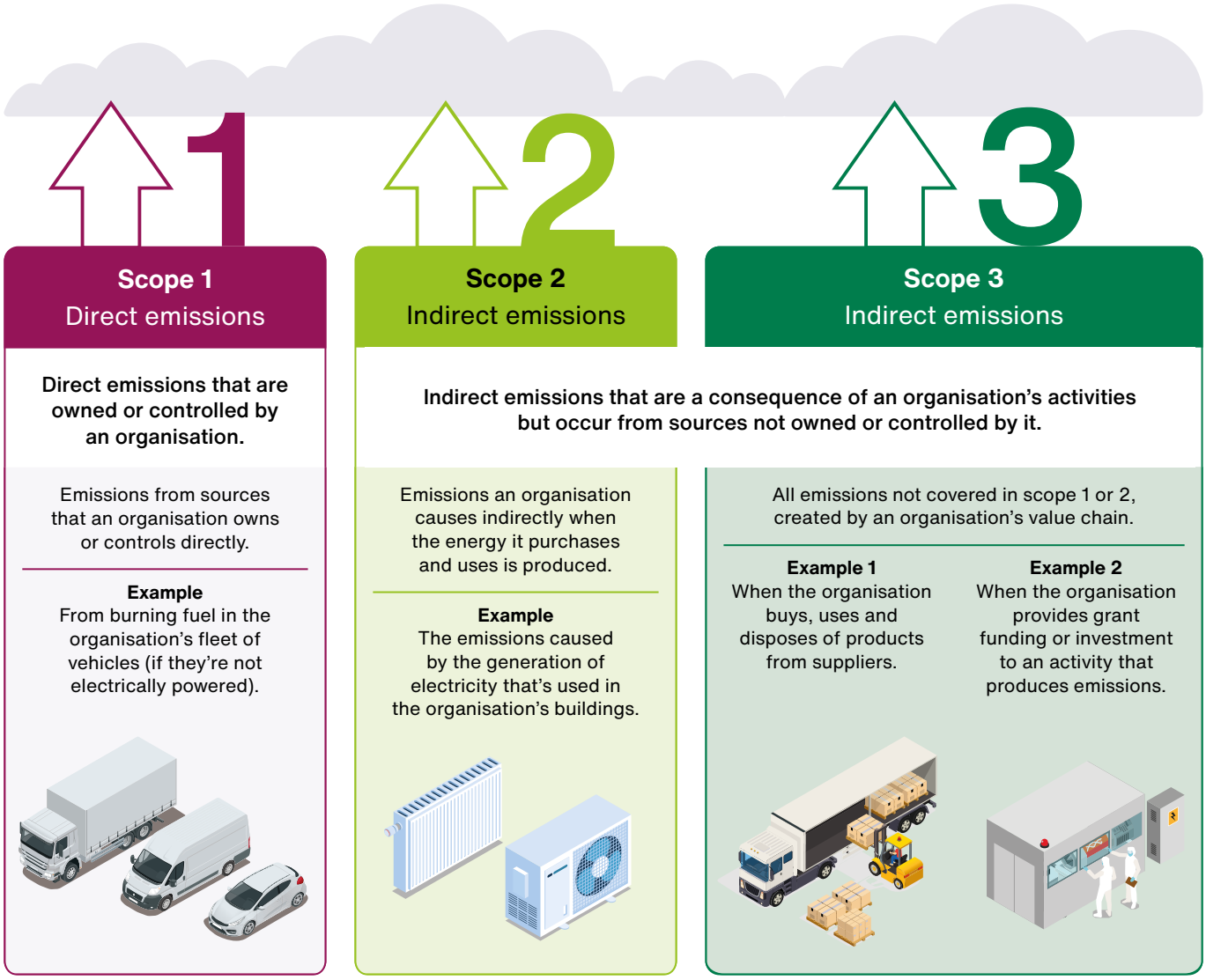
All 31 bodies that we reviewed reported domestic Scope 1 and 2 emissions in 2025-26. Eleven of the 25 central government reports we reviewed included some reporting of Scope 3 emissions beyond business travel, which was previously required under the GGCs and which many bodies continue to report although no longer required by HMT guidance. All six companies included some reporting of Scope 3 emissions (other than business travel, which is required by SECR requirements).

Bodies must make their own assessment of whether their wider carbon footprint, including Scope 3 emissions, is material to primary users and whether the cost of reporting outweighs the expected benefits. In our judgement, emissions reporting in the annual report should make clear to a reader the most significant sources of emissions, and indicate where emissions reductions will be hardest to achieve to help reach the UK's net zero 2050 target. It is most likely to be useful where it helps bodies identify sources of emissions that they can influence and that are likely to be significant to primary users of the annual report. Across the economy, most organisations find that Scope 3 emissions are the largest part of their overall emissions and the most difficult to reduce.

Figure 9

What are Scope 1, 2 and 3 carbon emissions?

Three scopes of carbon emissions are used to categorise greenhouse gas emissions by the way they are produced by an organisation and by how much control the organisation has over them



Source: National Audit Office adaptation of emissions scopes graphic produced by *National Grid: National Grid, What are scope 1, 2 and 3 carbon emissions?* [accessed 13 October 2026], available at: https://www.nationalgrid.com/stories/energy-explained/what-are-scope-1-2-3-carbon-emissions

A good example of Scope 3 emissions reporting can be found in Homes England (HE)'s annual report, where it has assessed elements of its wider carbon footprint as material. It found that Scope 3 emissions made up 99.75% of its total emissions in 2025-26. HE identified that 90% of those Scope 3 emissions came from investment activity, reflecting its support for housing, regeneration and infrastructure delivery through funding programmes. This emissions profile reflects its core activities, particularly its role in funding construction and land development which are inherently carbon-intensive.

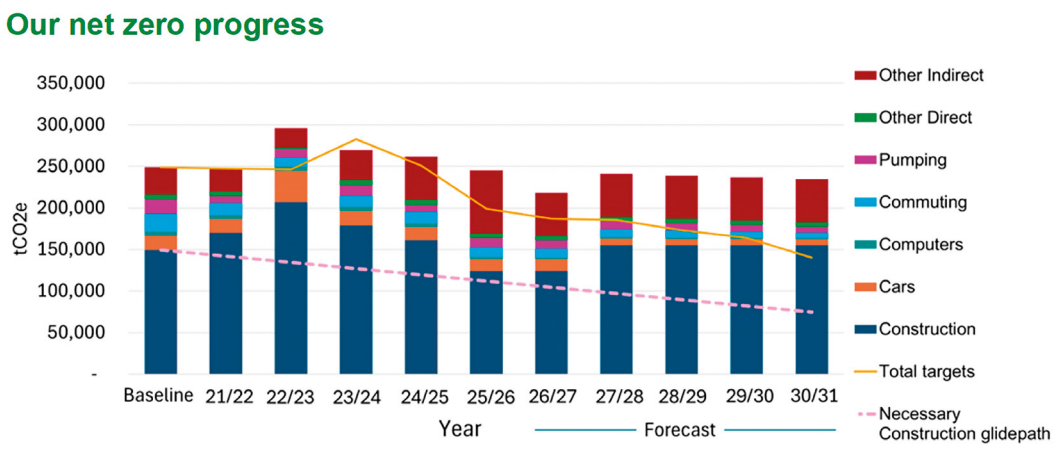
Another good example of Scope 3 emissions reporting can be found in the Environment Agency (EA)'s annual report (**Figure 10**). EA reported all material emissions (including from Scope 3) and explained clearly the challenges in decarbonising operations, especially construction, given the need to continue building flood defences to adapt to climate change. EA has succeeded in reducing the carbon intensity of its work. Tonnes of CO2 emitted per £10,000 spent have fallen to less than half of what they were in 2021-22. This approach reflects its continued organisational commitment to achieve net zero emissions across its operations and supply chain. EA is working to embed low-carbon delivery as a strategic objective in flood management schemes, for example through its commercial contracts. However, EA acknowledges continued challenge to reach its 2030 emissions reduction targets.

Annual report extract

Figure 10

Environment Agency 2025-26

Indirect emissions are disclosed as being highly material to the Environment Agency, and it faces challenges meeting its decarbonisation targets while also increasing construction of flood defences



Source: Environment Agency Annual Report and Accounts 2025-26, page 23

Seven central government bodies who reported no or very limited Scope 3 emissions explained that work is ongoing to explore their wider carbon footprint. Government bodies are involved in many activities that can be carbon-intensive, such as construction, procurement, and grant-giving. This activity is captured by national emissions reporting but is not reported in most central government annual reports.

Without identifying the main drivers of their carbon footprint, or the significance of this information to their primary users, bodies will find it difficult to assess the materiality of their indirect emissions. Most bodies who did not report additional Scope 3 emissions did not disclose an assessment of whether their wider carbon footprint was material, as this is not required by either framework. The Ministry of Housing Communities & Local Government (MHCLG) assessed the materiality of its Scope 3 emissions and decided not to disclose them, judging that additional disclosures would not materially enhance understanding of the department's financial risk exposure.

Estimating Scope 3 emissions is inherently complex, as it relies on data beyond the entity's control which may be unreliable or unavailable. Scope 3 reporting is therefore voluntary, and subject to a materiality assessment, in both HMT guidance and SECR requirements. However, private sector reporting standards encourage Scope 3 emissions disclosure because investors cannot fully understand a company's transition risk without information about all its emissions. Annual reports may give a misleading account of emissions reduction where they omit the most material sources of emissions.

The Committee of Public Accounts recommended in 2022 that public sector reporting requirements should consider the best way to report Scope 3 emissions. The Department of Energy Security & Net Zero (DESNZ) published further public sector emissions reporting guidance in October 2026.[7]

Overseas emissions

Both the Foreign, Commonwealth & Development Office (FCDO) and the Ministry of Defence (MoD) have significant overseas operations. MoD reported some limited overseas emissions within its overall carbon footprint. FCDO explained that its systems, data coverage, and reporting capability were not developed enough to include overseas emissions in its reporting.

7 *Greenhouse gas emissions measurement and reporting: Technical report and insights for the public sector in England.*

Carbon offsetting

Most bodies we reviewed were not using carbon offsets. However, some bodies operate in sectors that are difficult to fully decarbonise and are relying on offsetting to meet net zero targets. HMT's Sustainability Reporting Guidance requires carbon offsets to be reported where used, while noting that this should not be seen as encouraging their use in central government. In 2025-26, central government bodies that disclosed spending on carbon credits included:

- MoD (£6.7 million);
- The Nuclear Decommissioning Authority (£60,000);
- the Met Office (£17,690); and
- DESNZ (£5,000).

Northern Trains noted that, as it is relying on electrification of the railway network to decarbonise, "there will be a significant need to purchase offsets for fleet emissions to be at Net Zero for 2050 and beyond". It estimates its residual emissions in 2050 could cost £34.1 million annually to offset.

Governance and Risk Management disclosures: improvements from 2024-25



Quick overview of the Governance and Risk Management themes of climate-related disclosures

The Task Force on Climate-related Financial Disclosures recommended that reports be structured around four thematic areas: Strategy, Metrics and Targets, **Governance** and **Risk Management**.

Governance and risk management disclosures have been required for central government bodies since 2023-24 and for certain companies since 2022. This narrative information should help a reader of the annual report judge:

- how robustly and regularly senior management and the board consider climate-related issues;
- whether the risk management processes are likely to provide senior management with a complete and mature assessment of exposure to climate-related risks; and
- whether the governance and risk management the body has in place are commensurate with and proportionate to the identified level of climate-related risk.

All 31 bodies in our sample were required to disclose their climate-related governance and risk management arrangements in 2025-26.

Key takeaway:

- **We observed improvement in the governance and risk management disclosures of central government in 2025-26 compared with 2024-25, an encouraging sign that climate-related disclosures are maturing.**

Half of the disclosures we reviewed clearly identified a Senior Risk Owner (SRO) for climate-related risks. While this is not mandatory in either reporting framework, HM Treasury (HMT)'s guidance recommends that bodies disclose their key reporting channels for climate information, which may include specific individuals or committees. Companies Act guidance likewise advises that a user of the accounts should be able to understand who (which person or committee) is responsible for identifying and managing climate risks.

Where this role was disclosed, it was typically board level. Most commonly, SROs headed a sustainability team, followed by strategy and property. Of 15 central government bodies in our sample that reported climate as a principal risk or otherwise material in 2025-26, in five cases the disclosure did not include enough information for users to understand responsibility, seniority, and escalation arrangements.

Of all the 31 bodies included in our sample, 12 included specific information about how often the board or audit committee considered climate change issues. While this is not mandatory in either framework and reporting should reflect the level of risk, it is difficult for readers to judge how well climate issues are escalated to leadership if this information is not provided. HMT advises that disclosures should include information about the frequency of reporting to the board or its committees, while Companies Act guidance recommends that governance disclosures include how often climate matters are considered.

Of 25 central government bodies that we reviewed, 12 had changed the description of their governance since the year before. In 2024-25, several bodies described ongoing changes in their governance arrangements for climate issues (Cabinet Office, the Department for Business & Trade (DBT), the Ministry of Housing, Communities & Local Government). Many bodies we spoke to for our 2025 report told us that TCFD disclosure had increased senior stakeholders' interest in climate-related reporting and led to stronger governance and risk management processes.[8] In 2025-26, several bodies expanded or clarified the disclosure of their climate governance or risk management (DBT, the Department for Culture, Media & Sport, the Department for Environment, Food & Rural Affairs, HMT, NHS England), reflecting changing understanding of climate risk or developing disclosure capability. This improved the quality of information available to users of the accounts.

8 Comptroller and Auditor General, *Implementation of climate-related reporting in central government annual reports*, Session 2024–2026, HC 1383, National Audit Office, November 2025.

Government bodies may find it hard to manage climate-related risks because there is often a difference between the risks to which the body has the most material exposure, and those that it can manage and control. Existing risk assessment and monitoring procedures are often set up on the timescales of government funding cycles (typically three to five years), rather than the medium- and long-term timescales relevant for the chronic risks of climate change. In the 31 disclosures that we reviewed, the timescales varied significantly. Short term could mean one to two years (Ministry of Defence) or by 2040 (Department for Work & Pensions, Ministry of Justice (MoJ) agencies), while long term could mean by 2050 (train companies, Homes England (HE) – transition risks) or the end of the century (Environment Agency, MoJ agencies, HE – physical risks). Different timescales may be relevant in considering physical and transition risks, with most transition risks expected to manifest themselves by 2050, given the UK's statutory net zero target.

We saw improvement in governance and risk management disclosures in central government in 2025-26 compared with 2024-25. For example, only three central government bodies we reviewed in 2025-26 chose to explain rather than comply with all governance and risk management requirements (down from seven in 2024-25). This may suggest that the quality of these disclosures is improving over time.

The scope of climate-related reporting for central government



Quick overview of climate-related disclosure scoping requirements

Bodies following HM Treasury's (HMT's) guidance must assess whether they consider climate to be a material risk to them and include a rationale where it is not. When explaining how they reached their conclusion, bodies should include the risks, activities, and responsibilities they considered.

Some 25 bodies in our sample were required to disclose and explain the conclusion of their climate-related risk assessment.

Key takeaways:

- **Bodies are taking different approaches to assessing and disclosing climate-related risks. Narrow assessments may omit information that readers expect – for example information about key climate change responsibilities – weakening scrutiny and accountability.**

- **Parent departments did not consistently show how they oversee group-wide climate risks.**

Where to draw the boundaries for risk assessment

Central government bodies, especially major resource departments, have broad strategic objectives. As well as directly delivering public services, they set the policy direction for and regulate sectors of the economy, to influence behaviour beyond their direct control. This means that material information for the users of their annual report might relate to risks or outcomes beyond a body's direct control and beyond the reporting boundary of its financial statements.

Task Force on Climate-related Financial Disclosures (TCFD) reporting goes beyond the historic requirements of central government departments to disclose their emissions reductions and environmental impacts from their own estates and operations. It asks bodies to stand back and consider their most significant climate-related risks and what information is most material to users of their accounts. This assessment extends beyond day-to-day operations and should consider the body's supply chain, funded activities, strategic objectives and broader policy responsibilities (**Figure 11**).

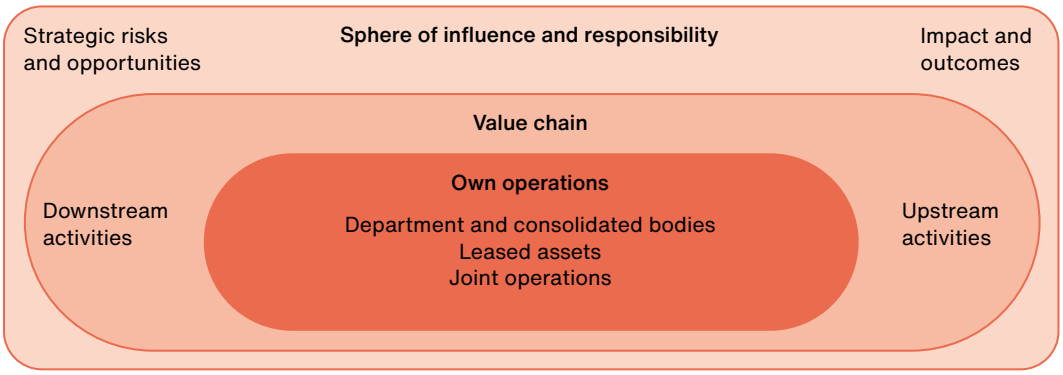
Insights from our review

In our review, we found that audited bodies made different judgements around the reporting boundary of their sustainability information. Some drew a significantly broader scope for their TCFD reporting than for financial reporting. For example, the Department for Energy Security & Net Zero's (DESNZ's) disclosure explicitly considered sectoral risks set out in the National Adaptation Programme (NAP) for which DESNZ is responsible but which it does not directly control or own, such as risks to offshore energy infrastructure. DESNZ included this information on the basis that it would be material to primary users, including Parliament, given DESNZ's central strategic role in carbon reduction in the UK.

Figure 11

Reporting boundaries and lenses of public sector sustainability information

HM Treasury guidance sets out that the scope of climate-related (TCFD) reporting reflects the broad responsibilities of public bodies and can extend beyond financial reporting boundaries



Note

1 A body's value chain includes suppliers, contractors, delivery partners and other external activities that sit outside an organisation's direct operations but contribute to delivering public services and outcomes.

Source: National Audit Office adaptation of HM Treasury Sustainability Reporting Guidance

Different scopes will be appropriate for different bodies, depending on primary users' information needs. For some, such as the Government Property Agency, estates and operations may be the most appropriate focus. Many bodies we reviewed identified material risks to their policy responsibilities or to the sectors they influence, beyond their estates and operations. Where climate change has significant impacts on public service delivery or a body's strategic objectives, this information is likely to be material to users. Reporting of sustainability information should be consistent with the materiality approach of the rest of the annual report.

Where bodies take too narrow a view of scope for their TCFD disclosures, they may omit information that readers would reasonably expect to see, weakening scrutiny and accountability. For example, the Department for Environment, Food & Rural Affairs (Defra) addressed climate mitigation and adaptation in its performance narrative but limited its TCFD disclosure to its own estates and operations and therefore concluded that climate change was not a principal risk. Defra reports on climate adaptation action at a national level through NAP implementation reporting. We did not consider the scope for TCFD to be appropriate, because Defra's strategic objectives, including nature recovery, food security and flood resilience, are directly impacted by climate change risks. Defra has since reviewed its scope and intends to address strategic risks in future TCFD reporting.

Oversight of climate-related risks at the group level

In the private sector, companies prepare one consolidated group-level climate disclosure alongside their consolidated group financial statement. By contrast, all central government bodies large enough for TCFD disclosures, including arm's-length bodies within departmental groups, must individually assess which risks and opportunities are most material for them to manage, measure and disclose.

Parent departments are ultimately responsible for overseeing climate-related risks and opportunities that are material at the group level. HMT guidance also requires that climate-related disclosure should provide "a holistic view across a group".

Insights from our review

Of 14 departmental group reports we reviewed, eight did not include any information about the oversight of climate risks arising in their group bodies. Where parent departments do not disclose their governance or oversight of group-wide risks, it is not clear how they are incorporated into decision-making by senior officials who have responsibility for the whole group.

Information about how climate-related risks are overseen by the relevant departmental decision-makers is particularly relevant where subsidiary bodies spend substantial amounts on climate policy. It is also relevant where subsidiary bodies hold assets or liabilities that are highly exposed to climate-related risks, but are not obliged to make their own TCFD disclosures. From our review, examples of such bodies include:

- HM Revenue & Customs, which includes a £6.7 billion liability for future tax repayments from oil and gas decommissioning in its Trust Statement (part of the Annual Report);
- the Low Carbon Contracts Company, which paid £2.9 billion net in 2025-26 to low-carbon energy generators under the Contracts for Difference schemes; and
- the Electricity Settlements Company, which paid £1.6 billion in 2025-26 to ensure there was enough reliable capacity to meet electricity demand.

Differences in how parent and subsidiary bodies assess and describe their risks may indicate gaps in oversight of those risks. For example, disclosures in the Department for Transport (DfT) group show shared risks and gradually converging risk assessments, but also some ambiguity around risk ownership and accountability (**Figure 12** on pages 43 and 44). Within the group, Network Rail is responsible for managing the resilience of rail infrastructure but considers its long-term financial risk to be mitigated by its five-year funding settlements with DfT. Similarly, train operating companies manage their own risks but depend on actions taken by other bodies in the group to advance their strategic aims (for example, they are reliant on the electrification of the rail infrastructure to ensure their own decarbonisation). DfT's disclosure included limited information about its oversight and management of strategic and interdependent climate-related risks across the transport sector.

Figure 12

Shared climate-related risks in Department for Transport (DfT) group bodies

The structure of the DfT group means that different climate-related risks and impacts are disclosed and managed at different layers of the group

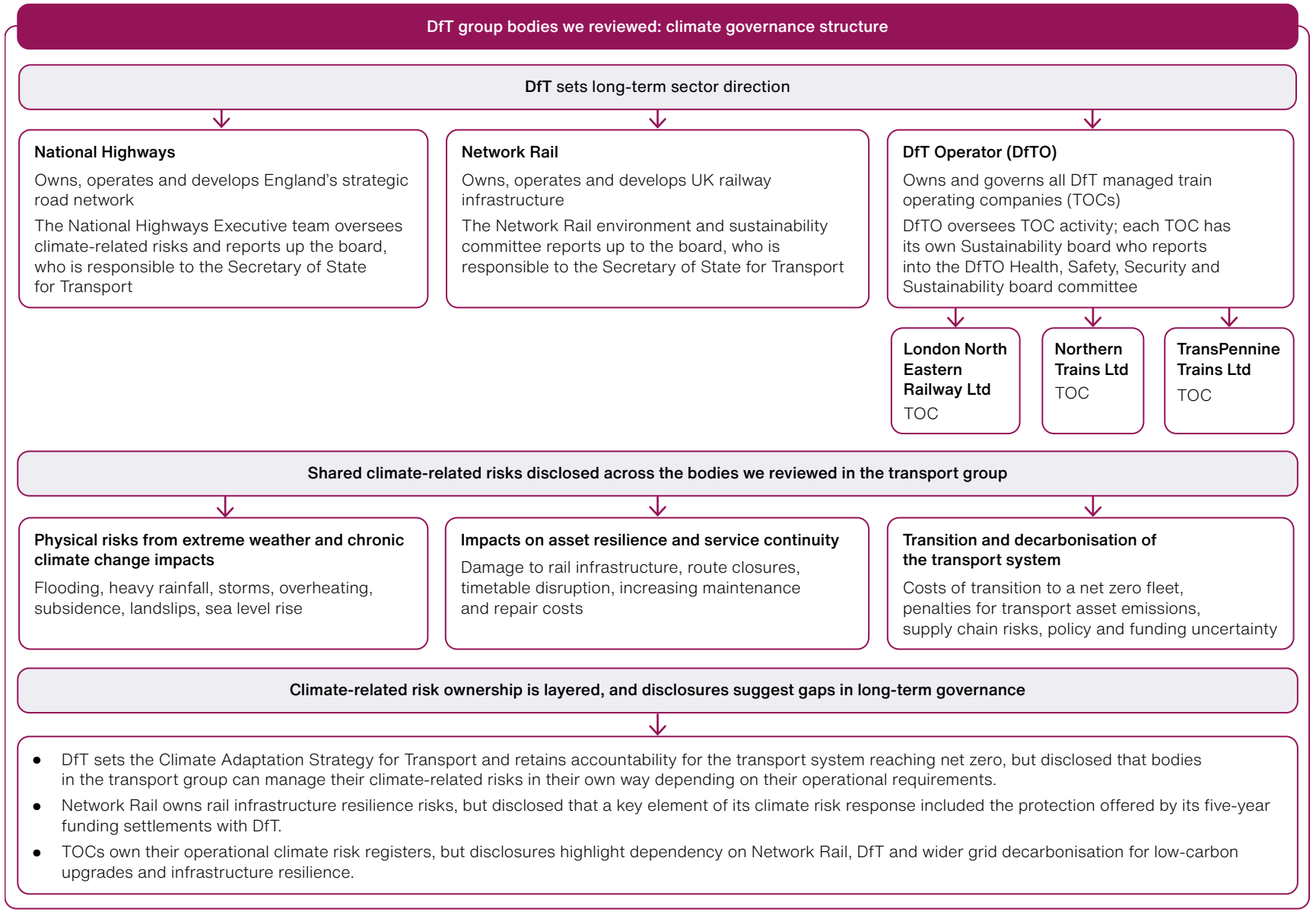


Figure 12 *continued*
Shared climate-related risks in Department for Transport (DfT) group bodies

Notes

1 DfT Operator and the Train Operating Companies are public sector corporations wholly owned by the Secretary of State for Transport. However they are not consolidated into the Department for Transport group financial statements because they are not classified to the public sector by the Office for National Statistics.

2 A comparatively large number of transport bodies was included in our review sample because we provided additional support to the train operating companies as they moved into public ownership in 2025-26.

Source: National Audit Office analysis of 2025-26 climate-related disclosures made by bodies in the transport group

Our evidence base

We reviewed the Task Force on Climate-related Financial Disclosures (TCFD) disclosures of 31 public bodies in the 2025-26 financial audit cycle. This review was intended to improve compliance and quality of these disclosures in the final year of the implementation of climate-related reporting in central government. We selected these bodies to focus our review time on those disclosures likely to be of most interest to Parliament. Our selection of bodies was therefore not representative of government as a whole, but focused on those organisations we judged to be most exposed to climate-related risks. It included 15 departments, nine public bodies, and seven government-owned companies.

Where we have referred to central government bodies in this report, this means departments, agencies and other public bodies.

Reviewed bodies

Departments	
CO	Cabinet Office
DBT	Department for Business & Trade
DCMS	Department for Culture, Media & Sport
DESNZ	Department for Energy Security & Net Zero
Defra	Department for Environment, Food & Rural Affairs
DSIT	Department for Science, Innovation & Technology
DfT	Department for Transport
DHSC	Department of Health & Social Care
DWP	Department for Work & Pensions
FCDO	Foreign, Commonwealth & Development Office
HMRC	HM Revenue & Customs
HMT	HM Treasury
HO	Home Office
MHCLG	Ministry of Housing, Communities & Local Government
MoD	Ministry of Defence

This review took place before the Machinery of Government changes which renamed DBT as the Department for Business, Innovation, Science and Trade, and the functions of DSIT were redistributed to other parts of government.

Agencies and other public bodies	
EA	Environment Agency
GPA	Government Property Agency
HMCTS	HM Courts & Tribunals Service
HMPPS	HM Prison & Probation Service
HE	Homes England
NHSE	NHS England
NDA	Nuclear Decommissioning Authority
UKAEA	UK Atomic Energy Authority
UKRI	UK Research and Innovation

Companies and public corporations	
BBB	British Business Bank PLC
DfTO	DfT Operator Limited
LNER	London North Eastern Railway Limited
NH	National Highways
NR	Network Rail Limited
Northern	Northern Trains Limited
TPT	TransPennine Trains Limited

Reporting requirements

There are two different sets of TCFD reporting requirements covering the central government bodies and government-owned companies in our sample.

- HM Treasury's (HMT's) TCFD-aligned disclosure guidance for the UK public sector. This applies to all central departments, and to agencies and arm's-length bodies above the scoping criteria (at least £500 million in operating income or funding received and at least 500 full-time equivalent employees), or where directed by their parent department.
- Companies Act requirements for climate-related financial disclosures, which apply to companies and limited liability partnerships with more than £500 million in turnover and 500 employees.

These requirements are closely related but with some key differences.

- The HMT guidance introduces a materiality assessment, where only bodies who have assessed climate as a principal risk or as otherwise material must provide the full set of disclosures.
- The HMT requirements are on a 'comply or explain' basis.
- The HMT guidance provides more detailed requirements for compliance in some areas, for example in scenario analysis.
- Companies Act Climate-related Financial Disclosure requirements do not prescribe emissions reporting, as this is covered by the Streamlined Energy and Carbon Reporting (SECR) requirements.

We assessed all departments, agencies and other public bodies against the HMT TCFD application guidance. We have also assessed National Highways against these requirements for the purposes of this report, although it is a company, because it prepares its disclosures in line with HMT TCFD application guidance. Throughout this report, therefore, we have included National Highways in the sample of central government bodies. During our review, we confirmed that it was also fully compliant with Companies Act requirements.

We assessed the remaining six companies reporting under the Companies Act against the statutory requirements of this Act and the non-binding guidance which the former Department for Business, Energy & Industrial Strategy produced to support companies in applying this requirement. These companies were all in scope of the SECR requirements for larger companies, so we assessed their emissions reporting against these requirements.

Methodology

Between February and September 2026, we conducted a two-stage review process for each of these bodies, as follows:

An early review of the prior year's annual report and accounts, any related corporate or sustainability strategies, other relevant government documentation (for example, the National Adaptation Programme), and the annual reports of other bodies in the departmental group. We also considered any relevant previous work, including financial audit work, carried out by the National Audit Office.

A pre-certification review of the 2025-26 TCFD disclosures, focusing on compliance and quality. We assessed each disclosure against the requirements applicable to that entity. We separately recorded mandatory compliance, use of an applicable explanation provision (for central government bodies), and opportunities for voluntary improvement. In assessing bodies against HMT TCFD application guidance, we considered the following.

- Whether the body disclosed climate as a principal risk, a significant component of a principal risk, or as otherwise material. Where bodies decided that climate was not material, we checked that they included a rationale for that decision.
- Whether the body had complied with the mandatory requirements of the guidance. Where they had not provided the required disclosure, we confirmed that they had explained their reasons for not doing so. This included both the mandatory minimum requirements and those subject to a materiality assessment. 'Comply or explain' applies to all disclosures, and we treated explanations of non-disclosure as meeting the HMT requirements and therefore as compliant.
- Whether the body's TCFD disclosure was materially consistent with the financial statements, the knowledge acquired through the financial audit, or whether it otherwise appeared to be materially misstated.

We also made suggestions for voluntary improvements, drawing on HMT advisory guidance and on observed good practice. Where bodies did not include optional or good practice disclosure, we have not treated this as a compliance issue.

In assessing companies in the sample, we considered:

- whether they had met the statutory requirements for climate-related financial disclosures, as set out in the Companies Act; and
- whether they had met the applicable emissions reporting requirements as set out in the SECR.

We also considered the non-binding guidance published alongside the Companies Act to support companies with these disclosures and made suggestions for improvement based on these.

We shared feedback from these reviews with the audited bodies, either directly or through the financial audit team.

The evaluation of audited bodies' disclosures in this report reflects our professional judgement. In some cases, this may differ from the self-assessment made by audited bodies.

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