

UP FOR DISCUSSION: CLIMATE BUDGETING AND TCFD

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Can climate budgeting and TCFD move us further towards our climate goals?

Climate budgeting and TCFD are new and emerging trends in the municipal climate space. Climate leaders are making commitments to them, practitioners are debating their merits, and specialists are creating and testing new methods to implement them. But, what exactly are they and can these tools really help advance our climate goals? In *Up for Discussion: Climate Budgeting and TCFD*, we define both tools, provide our perspective on these new and emerging trends, and share questions we are asking as we advance with this work.

Climate Budgeting

At its most basic level, a climate budget is a governance system that mirrors a city's financial budgeting process for greenhouse gas (GHG) emissions. A city sets a GHG budget for the year and puts in place processes to ensure the budget is achieved and reported against, similar to a financial budget. The GHG budget for the year is typically determined through modeling exercises assessing current or base year emissions, desired future state (i.e., net-zero) and the possible pathways between the two.

While climate budgeting isn't a standardized process, it generally involves departments from across the municipality putting forth GHG reduction projects for consideration. Each year a set of projects are approved that will reduce GHG emissions to the allowable level. Climate specialists within the municipality typically support the process to ensure credibility and ensure consistent and comparable metrics and assumptions in tracking and reporting.

The concept of a climate budget was created by the City of Oslo, Norway, back in 2017 and it has gained a lot of traction because of the way it facilitates an annual,

whole of government approach and integrates accountability into planning and prioritizing climate action. A climate budget itself won't reduce GHG emissions, but it ensures decision makers are engaged on a regular basis, informed when GHG emission limits set within the climate budgeting process are off-track, and provided with the opportunity to course correct.

Of course, hundreds of Canadian cities have set bold GHG emissions reductions targets,

and have developed climate action plans to achieve them. Municipalities are tracking their GHG emissions and modeling the impact of their proposed and implemented measures. There are over 500 municipalities doing exactly that through our [Partners for Climate Protection \(PCP\) Program](#) which is delivered with the Federation of Canadian Municipalities. But climate budgeting hasn't gone mainstream just yet. Why is that?

Climate Budgeting questions for discussion

- Is climate budgeting the governance tool we need to realize our climate targets?
- Is it better-suited to certain types of local governments?
- With such a quantitative assessment process, can it also be sensitive to qualitative priorities?
- What are the common challenges municipalities face over the course of developing and implementing their climate budgets and what tools and resources could help overcome them?

TCFD

TCFD is a term often used to describe climate-related financial disclosures. The Task Force on Climate-related Financial Disclosures (TCFD) was created in 2015 by the Financial Stability Board, an international body that monitors and makes recommendations about the global financial system. TCFD recommendations were developed for companies to use when providing information to investors, lenders, insurers and other stakeholders. While local governments around the world don't generally use the TCFD recommendations to assess climate-related financial risks,

there is a group of leading Canadian municipalities that have taken this on voluntarily, as this information is becoming increasingly relevant to decision makers, bond holders, investors, residents and stakeholders.

TCFD recommendations seek to guide entities in providing consistent, comparable, reliable, clear, and efficient information about how climate issues are being managed. Recommended disclosures include reports on governance, strategy, risk management, metrics, and targets related to climate adaptation and mitigation. These disclosures are to be

presented in mainstream financial reports alongside other material information on a company's financial performance, position, and prospects.

Climate-related financial disclosures are built upon a process of identifying relevant hazards and trends and then assessing the financial risks and opportunities they present. This often involves an assessment of the local government assets, expenses, and revenue streams that are exposed to physical climate impacts. Dealing with uncertainty is a major factor in this work. Many tools exist to support these processes, including those offered through ICLEI Canada's [Building Adaptive and](#)

[Resilient Communities \(BARC\)](#), yet there are significant gaps in resources and no standardization across the municipal landscape.

All climate-related financial disclosures, whether from the private sector or local government, are evolving tremendously from year-to-year. These are informed by the increasing availability of climate information, increased availability of tools to support the assessment processes, and the maturity of individual and collective management practices. While tremendous effort has gone into this work, it is still very much in its infancy and expected to evolve significantly in the coming years.

TCFD questions for discussion

- Should climate-related financial disclosure be mainstreamed across Canadian municipalities as a means to realize our climate targets?
- Are they more pertinent to larger municipalities?
- Should we be seeking a more standardized approach to municipal climate-related financial disclosure under a voluntary system, and will that allow for sufficient cross-industry comparability?
- What are the common challenges municipalities face over the course of devising and implementing their governance, strategy, risk management and metrics and targets reports, and what additional tools and resources could help overcome them?
- With the Financial Stability Board's recent announcement that the work of the TCFD was completed, what implications do we see for harmonization of reporting standards with the International Sustainability Standards Board (ISSB).

Combined questions for discussion

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Our perspective

At ICLEI Canada, we think climate budgeting and TCFD show incredible promise to help us build accountability and governance into our municipal climate planning and implementation processes. For over twenty years Canadian municipalities have demonstrated the commitment, the ambition and the will to act on climate change and have made remarkable progress. Climate budgeting and TCFD could be just what we need to finally reach our net-zero resiliency goals. Why?

Because the broader adoption of climate budgeting and TCFD can establish a more regular, cross-departmental culture of climate leadership—one that is more accountable and transparent (both inward and outward facing) regarding official climate goals and targets. However, both climate budgeting and TCFD are in their infancy, and would benefit greatly from the creativity, ingenuity, and collaborative spirit of municipal practitioners to put them to the test and ask difficult questions before they can realize their full potential.

Up for more discussion?

Join us at the Livable Cities Forum in the *Getting to net-zero: Municipal climate budgeting and disclosure* workshop to discuss these questions and more. Visit livablecitiesforum.com to learn more.

Interested in research and resources on climate budgeting and TCFD?

Visit the [Municipal Net-Zero Action Research Partnership \(N-ZAP\) website](#) to learn more and stay in touch.

About us

ICLEI — Local Governments for Sustainability is a global network of more than 2,500 local and regional governments committed to sustainable urban development. Active in 125+ countries, we influence sustainability policy and drive local action for low-emission, nature-based, equitable, resilient, and circular development. Our Members and team of experts work together through peer exchange, partnerships, and capacity building to create systemic change for urban sustainability.

We provide a wide range of services for local, provincial, and federal governments in support of developing sustainable, climate-ready communities. This support includes but is not limited to:

- **Adaptation and resilience planning:** Working with communities to develop collaborative and implementation-focused resilience plans.
- **Energy and emissions planning:** Supporting communities as they reduce their energy and emissions and move towards a low-carbon future.
- **Capacity building:** Providing opportunities to build expertise locally on climate change, sustainability, and resilience.

The ICLEI Canada team has over 100 cumulative years of experience in the municipal sector and in non-profit organizations. Our work happens across Canada, also known as Turtle Island, which has traditionally been and is home to many

diverse First Nations, Inuit, and Métis peoples since time immemorial. We recognize that reconciliation is a fundamental component to building net-zero resilient communities and endeavour to listen to and learn from Indigenous Peoples on an ongoing basis in the process of our work.

ICLEI Canada's head office is located in Toronto on the traditional territory of the Mississaugas of the Credit, the Anishnabeg, the Chippewa, the Haudenosaunee and the Wendat peoples. The British Columbia office is hosted by the City of Victoria on the homelands of the Songhees and Esquimalt People, and the Quebec office is hosted by the City of Montreal on the traditional territory of the Kanien'kehà:ka/Mohawk Nation.

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