SFMI
The Sustainable FM Index

SFMI Summary Report 2023

ACCLARO
ADVISORY

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FOREWORD

“The past two years have seen an escalation in the consolidation associated with environmental, social and governance (ESG) considerations as part of the ongoing maturity of the sector. There have been driving forces along with headwinds that are battling against one another, which is helping to challenge and refine the purpose of common sense drivers.

Despite the planet witnessing the warmest months on record, along with catastrophic flooding, wildfires and droughts that are affecting societies and biodiversity on a weekly basis in every continent of the globe. The ESG agenda has been under attack by a populist movement and labelled terms such as “woke capitalism”. The UK has seen elements of its net zero plan scaled back, with predictions that this will become a battle ground for winning votes in a possible 2024 election. Despite short-term thinking from some in Governments, the response from business in general has been to double down on the progress being made. Understanding the business value, businesses continue to commit to science-based targets to achieve zero carbon, and to understand and reduce biodiversity loss while promoting societal changes.

Regulation has played its part in providing a more secure future for the ESG agenda. The development of the International Sustainability Standards Board (ISSB) at COP26 in Glasgow just under two years ago has seen a rapid consolidation of the multitude of rating, standards and regulatory structures globally to align under a suite of co-working groups. This has brought about a much-needed co-ordination of requirements, but has also provided a very public robust response to demonstrate the value and need for ESG policies to protect habitats and societies. Starting with a climate-first approach, the drive to build into business practices and strategies as part of the accountancy principles almost negates the inconsistency from government announcements.

Customer expectations remains a primary focus for most organisations. Regulations are increasing the pressure on business to measure risk, set strategy and targets for decarbonisation and material ESG issues not only in operations but across supply chains. Seeing this need has led to an increase in FM services aligned to decarbonisation.

Sustainability is one of the megatrends affecting FM alongside other cross cutting issues such as technology and skills. As part of these megatrends, FM should be addressing climate risk, regulatory scrutiny, and senior level competency in climate risk. This will help to understand the current demands and pressures while building long term plans to meet them.”

SUNIL SHAH
MANAGING DIRECTOR

In today's world where additional transparency and validation of performance is required, the SFMI provides a simplified way to achieve this.

Executive Summary

Overview of the SFMI in 2023

The importance of sustainability in the corporate FM space has been expanding, and more businesses have been showing interest in having an SFMI assessment. The SFMI welcomes two new partners this year in EMCOR UK and also our first overseas FM Provider – Optima.

Taking part in an SFMI assessment is a very public commitment. This often means that many businesses while showing interest in the process, often do not make the full commitment. It requires an ethos of complete transparency as companies allow SFMI auditors to spend between one and two days discussing how embedded a multitude of interlinking sustainability topics are within a companies operations, supply chain and services. The SFMI draws teams from across the business – HR, procurement, sales, Board, operations, service delivery. But once companies take part, they find that the process of pulling together people from across a company is an eye opening experience into the culture and the building of success in a company.

In 2023 the SFMI made a conscious decision to push standards higher for some key topics, which inevitably led a reduction in average scores in these Governance amended fields:

RISK MANAGEMENT	BOARD COMMITMENT	DISCLOSURE	DIVERSITY & INCLUSION	STAKEHOLDER ENGAGEMENT
-11%	-5%	-9%	-12%	-12%

This represents the shifts in global frameworks and how they are going to be utilised for regulatory requirements. As such, the SFMI saw it fundamental that businesses seek to achieve best practice beyond future compliance.

In saying this, companies need to be challenged as they build to the SFMI's Platinum status. As complexity in global frameworks grows to incorporate double materiality along with greater transparency in metrics and progress towards to targets. The FM sector need to be tested. This matches the greater urgency of cornerstone sustainability issues such as social mobility and social value and oncoming climate crisis, married with the fast growing and interconnected topics such as biodiversity, circular economy and water management.

The partners of the SFMI have responded to these challenges by showing that they are in the vanguard of the FM community and represent the benchmark of where FM's should be aiming for if they want to be leaders in this space. They have also shown improvements in other key categories. Increases in scores however have been identified in some more stable criteria.

FINANCE	CIRCULAR ECONOMY	ENERGY	TRANSPORT	SUPPLY CHAIN
+6%	+9%	+5%	+3%	+3%

This SFMI report for 2023 takes its observations from conducting in-person audits with FM providers across the UK and in Spain, while also conduct public desktop assessments for a range of large and small FM providers to build its knowledge and share this information for the wider FM industry. These learnings can be considered by both outsourced FM providers and in-house FM teams.

THE SFMI IN NUMBERS

2023 winner **Skanska**

23 SFMI Criteria

33% of partners with a strategy to engage suppliers to reduce emissions

70+ interviews held across the 2022 audit schedule

Rising star 2023 **Churchill Group**

89% of partners committed or submitted targets to SBTi

1.79 the average point increase per criteria from a desktop assessment to audit

11TH (2013-2023) consecutive year of data on FM sustainability trends

INDUSTRY TRENDS

Highlight of strategic level findings

Sustainability-related disclosure frameworks are evolving and are being used to form the basis of regulatory frameworks. These frameworks are based primarily on understanding and measuring material sustainability-related risk and opportunity to the business. It is therefore fundamental for senior leaders to become more competent in their understanding of these subjects from a double materiality point of view, but also view these risks in a longer time horizon which extends beyond the length of the average commercial FM contract (3 to 5 years). This mindset shift will be needed to shape the vision of FM in a climate transition period of 10 – 20 years when net zero targets are needing to be achieved, whilst building services that protect the asset value of facilities that are at risk due to climate and sustainability issues

Highlight of operational level findings

Employee retention on an operational level has become a key area of focus. FMs are competing in a restricted talent pool and are not only using wages and salary increase to retain or attract employees, but in a low margin industry have been turning to improve culture and responsible business values as well. Companies are placing emphasis on employee development, well-being and social value as key tools to retain a strong workforce.

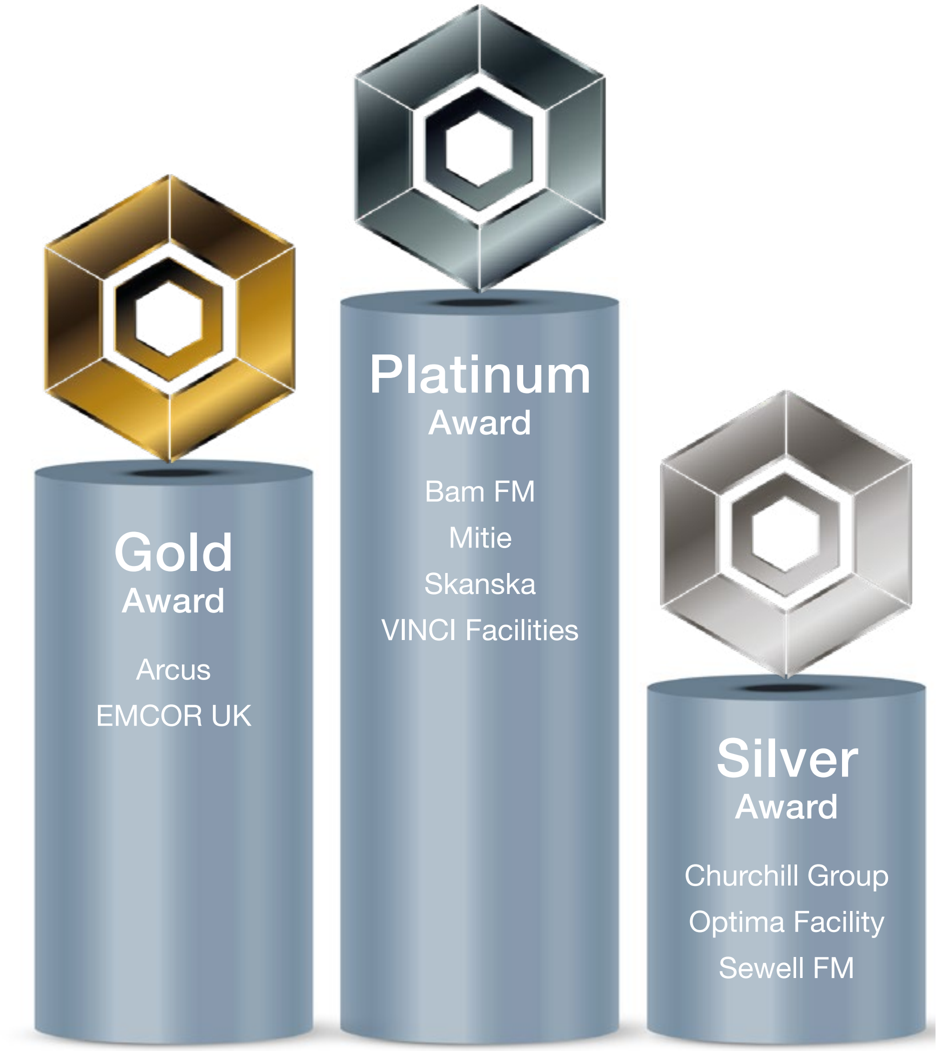
Decarbonisation is being seen across three pillars – operational carbon, supply chain carbon and client carbon. FMs range in their ability to drive change in these three areas, however, all SFMI partners have set net zero targets, with many committing to science-based targets. The question is, can the industry focus long-term?

Highlight of supply chain level findings

The boundaries for scope 3 emissions are starting to widen. Purchased goods and services are being measured as part of a standardised GHG corporate inventory. This ultimately leads to the need to actively engage with suppliers to achieve progress for future reductions. While engagement is in its early stages, larger FM providers are now poised to start this journey. This will take resource and knowledge to ensure that tier 1 suppliers are brought along on the journey, otherwise there risks wasted and inefficient effort.

The concept of waste management through the supply chain is also beginning to build in the industry. Mature FM providers are moving from a focus on operational single use plastics, to identify large streams of waste that occur in the value chain and building elimination or circular / recycling systems for them. While not systemic in the approach, nor witnessing strategic plans for identifying a range of core streams to tackle, it does show progress for the industry, and a pathway for those less mature to follow.

THE 2023 SUSTAINABILITY PERFORMANCE



Companies are listed in alphabetical order within each award category

Partners (receiving a full assessment)

Arcus FM
BAM FM
Churchill Group
EMCOR UK
Mitie
Optima Facility
Sewell FM
Skanska
Vinci Facilities

Non-partners (public data assessment only for benchmark purposes)

Apleona
Dussman
ISS
Landmarc
Sodexo

Strategic Findings

Climate risk is rearing its head over UK plc and risks significant asset devaluation. FM should be positioning itself as a strategic advisor for property owners to manage this risk. However, the SFMI has seen a disconnect between Boardroom definitions of long-term risk and the ESG framework's definition of long-term risk. Disclosure standards are also being raised for those companies that fall into the scope of regulatory requirements. This will also place pressure on smaller businesses as the gap grows in compliance requirements.

This section looks at the following topics:

- Disclosure and reporting standards
- Risk management
- Sustainability Frameworks

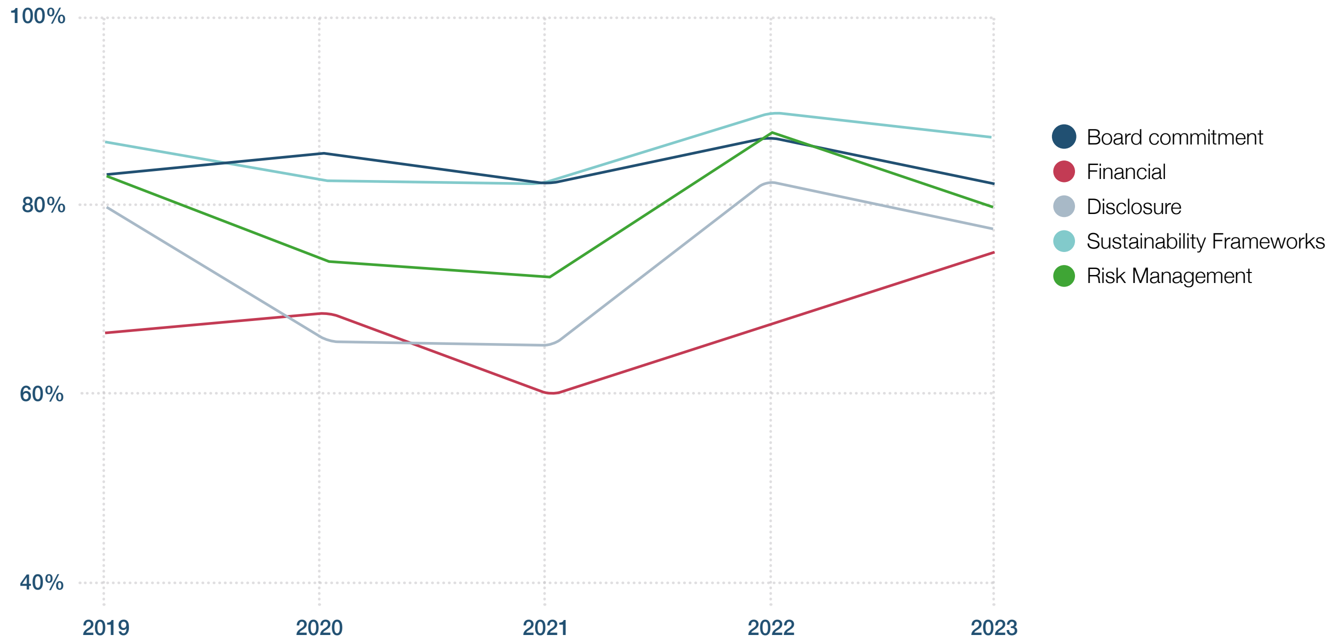
Progress of strategic criteria

FM providers have continued to build their sustainability frameworks to create more systematic and process-driven methods of managing a range of ESG topics, which has led to improved trending of disclosure from businesses. This criteria has kept stable as a high scoring area. Medium sized businesses are starting to build processes that allow them to identify and manage sustainability-related aspects from a contract level in a systematic method across more clients, which has allowed consistency to an approach that clients can rely on.

Capital and operational spend structures towards sustainability are increasing which is resulting in improved scores in Finance. However, in 2023, the SFMI increased the difficulty of Risk Management to represent the need for businesses to be embedding climate risk in their finance teams and also conducting scenario analysis on climate related risks to business. This increased difficulty is based on the direction of up-and-coming disclosure-based regulations and is causing a drop in score trending from 2022 to 2023.

Major Strategic categories have seen a reduction in scores based on the SFMI raising the bar in the criteria as businesses are faced with tightening regulatory requirements in the short term.

Average SFMI partner scores for strategic related criteria



Good practice profile: BAM FM

Embedding a sustainability framework for social value

To enhance the user engagement with their sustainability framework for social value, BAM FM have created an Impact App. The app's aim is to reduce barriers to data collection for social value that is delivered by BAM FM staff through their FM contracts. The app has been designed to be easy to use on-site or away from BAM offices, ensuring efficiency immediately after a Social Value activity is delivered.

A brief background to reporting standards

2023 has seen giant leaps and bounds in the requirements and alignments of the ESG reporting landscape that now links regulatory reporting with voluntary best practice frameworks. At the forefront of this was the formation of the International Sustainability Standards Board (ISSB). Announced at COP26 in 2021, the ISSB is a standard setting board of the International Financial Reporting Standards Foundation (IFRS), who sets global corporate reporting standards. This is important because sustainability reporting and finance reporting are slowly merging together. In 2023, the ISSB published its first 2 standards.

IFRS 1
Disclosure of sustainability-related financial information

+

IFRS 2
Climate-related disclosures

Visit IFRS for more information

The value of building good disclosure

The UK Government is working towards setting its Sustainability Disclosure Standards (SDS), which will set out corporate sustainability-related risk and opportunity disclosures. The important consideration for UK companies is that the UK Government has announced its alignment with the IFRS standards released by the ISSB.

The ISSB standards follow the pillars of the Taskforce for Climate-related Financial Disclosures (TCFD), and are influenced by the SASB industry-specific standards, and use the IFRS definition of materiality. Ultimately, businesses will be disclosing the material sustainability topics to their business within the following structure:

- governance
- strategic approach
- the risks and opportunities
- how they measure and target improvement.

Why is this important?

Strategically, FM providers of all sizes are now positioning themselves as solutions providers to their clients' zero carbon needs. This can be seen through a range of offerings such as building optimisation, EV infrastructure installation, solar installation and user energy reduction. Some providers are delivering consultancy to strategically plan the approach to net zero along with the solutions that can be utilised. Others are building carbon savings into the way traditional soft services are delivered, i.e. cleaning services with reduced waste and water.

Whichever approach is taken, those providers who are offering services should be considering how their own sustainability disclosure is aligned with best practice to ensure their position holds substance and stands out in a growing marketplace. There will also be growing customer pressure as they request more complex information from suppliers. The SFMI recommends the industry build its understanding of materiality and its disclosure performance to show itself as a leader.

From a European perspective, the Corporate Sustainability Reporting Directive (CSRD) is also driving sustainability disclosure in businesses within EU member states. While differing in structure, it hinges on disclosure of double materiality. This means the company's main impact on the environment AND what the impacts of a changing environment will have on the company.

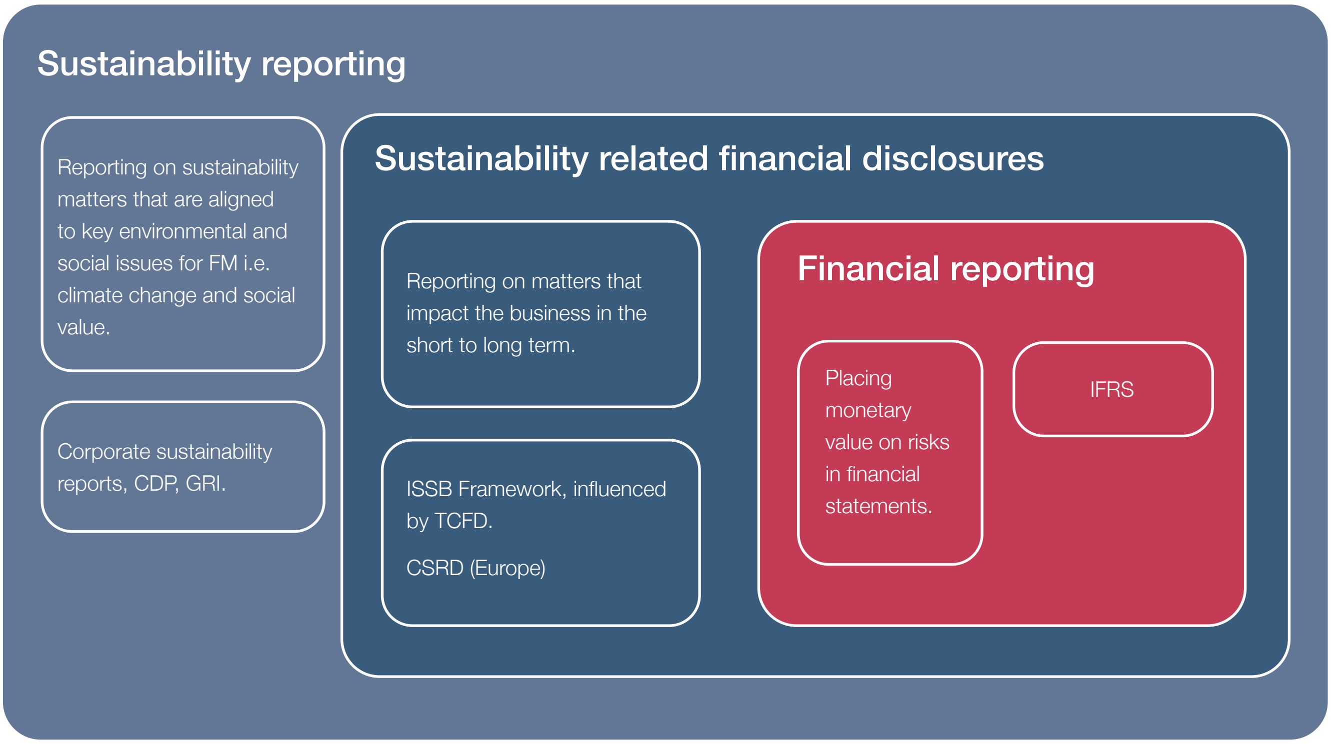
A new frontier – climate risk

A fundamental topic that lacks understanding at a senior level is that of climate risk. As we have seen from the developing standards which have been building in prominence since they were established by the TCFD in 2015. The TCFD framework has kept its shape since the start but has evolved and is currently being merged with the ISSB standards. Climate risk associated with FM is an undeveloped area that represents an opportunity for providers to differentiate themselves. However, the topic must be grasped first. A McKinsey report in 2022 found that real estate portfolios are exposed to significant devaluation in the next ten years due to various factors including increased rates of flooding and job losses due to the climate transition. Additionally, a study of a diversified equity portfolio found that, absent mitigating actions, climate risks could reduce annual returns toward the end of the decade by as much as 40%. This represents an opportunity for FM to advise on how this can be managed to retain value.

However, there are two factors that are causing a gap. Firstly, with FM's link to the construction industry, it is often seen that providers see risk based on their parent-level construction focus. However, the UK and European countries are entering a period of uncertainty where climate risks to buildings, and how they are operated, can show FM as a strategic advisor. Whether it be managing flood defence from frequent significant storms, effective energy management to keep overheating buildings still functioning for business continuity, or advising on capital expenses that can arise from building damage due to higher underground temperature variations that can deform buildings and foundations. These factors are looming, and represent both operational and capital expenditure for businesses and real asset owners. However, they require specialist input such as an understanding of climate scenario analysis and a medium and long term mindset.

Secondly, the SFMI has seen disconnect between both defining and managing short-term and long-term risk in the industry. FM often defines long term as 3 to 5 years, based on the length of a commercial FM contract. Considering net zero targets are from 2040 onwards, this shifts beyond 15 years. Therefore, a disconnect lies in how many FM providers' boardrooms see and manage long-term risks.

The industry would benefit from building its understanding of climate risk, and working towards identifying monetary values of risks for the business and its clients' operations to build greater value in the services it delivers. This will also link with the development of sustainability reporting as it starts to merge with financial reporting.



Social risks for FM

The FM industry is grappling with a skills shortage across a range of services. Audits this year shed light on how employment challenges are becoming a strategic concern. Firstly, the UK's unplanned exit from the European Union has led to staff shortages to fill front-line roles in services like cleaning which relied on immigration to fill gaps. From the cost-of-living crisis, the UK has seen an increase in violence towards staff in public-facing sectors such as retail, leading to undesirable working conditions, as well as a loss of staff from some front-line positions such as security. Skilled engineering roles continue to see a shrinking pool of candidates as well with an ageing demographic of people who are delivering electrical and heating services. The challenges facing the UK job market pose a threat to future growth ambitions and the short-term fulfilment of FM service contracts. These are being managed operationally as you will see in the next section of this report, however, some FMs have taken altogether new governance routes for themselves.

Good practice profile: Skanska

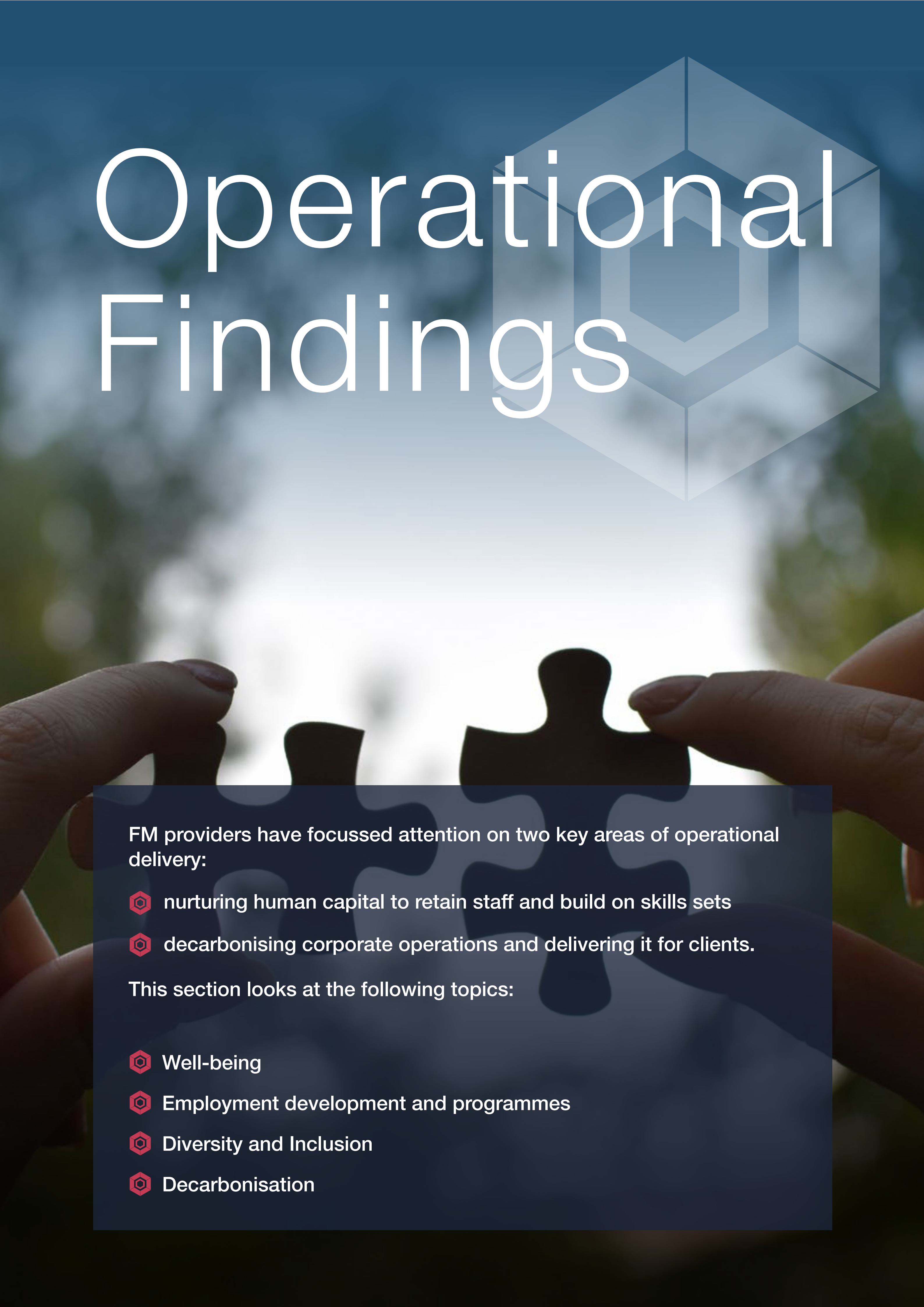
Employee development and sustainability frameworks

Skanska culture is embodied in Living their Values. The Learn Fast initiative has been implemented to support knowledge sharing across the business. As part of onboarding joiners receive “Belonging at Skanska” induction and all new starters receive a face-to-face meeting with SLT and an eLearning programme to be completed within 90 days, including mandatory sustainability training. There is bespoke content for target groups including those in healthcare, commercial and schools sites. All new line managers receive People Leader training.

Good practice profile: Sewell and Churchill Group

Employee ownership governance structure

Two SFMI partners have recently adapted their business governance model to become employee-owned businesses. Churchill and Sewell have gone through this process which make their employees across levels of the business beneficiaries to the success they achieve. This can help businesses nurture a productive work culture, and retain staff and employees have more to gain as the business grows, and keeps intellectual property within at the same time.



Operational Findings

FM providers have focussed attention on two key areas of operational delivery:

- nurturing human capital to retain staff and build on skills sets
- decarbonising corporate operations and delivering it for clients.

This section looks at the following topics:

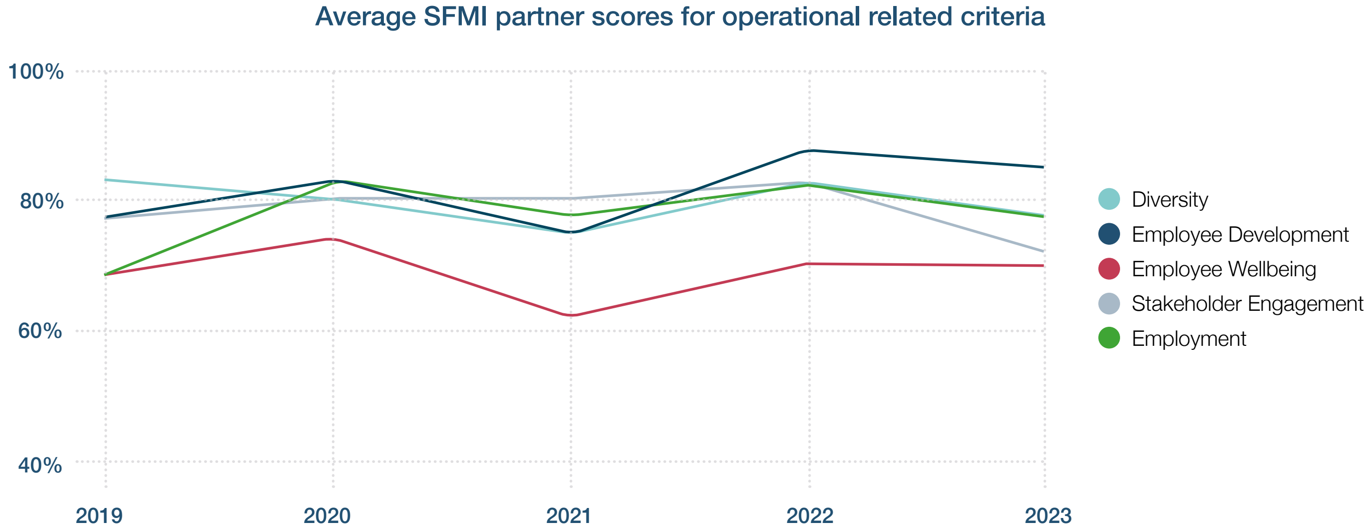
- Well-being
- Employment development and programmes
- Diversity and Inclusion
- Decarbonisation

Operational findings

From 2021, the SFMI has seen steady improvement in Employee Wellbeing in FM. This trend started as a reaction to managing the risk of illness during the Pandemic, but has continued to rise in importance as a tool for improving staff retention in competitive job markets. Alongside this is a need to reset staff culture after the rapid embedding of home-based or hybrid working and “the Great Resignation” phenomenon which saw many people switch careers and shift lifestyles. Greater investment in employee development also couples this trend with scores trending as high. The SFMI would like to see the same trend in Diversity & Inclusion over the coming years. D&I’s ranking in social scores has reduced dramatically since 2022. As best practice understanding of D&I increases, the SFMI integrates improvements into its scoring. This ranges from Boardroom leadership to operational delivery. D&I plays a significant role in ensuring that FM providers can draw talent from a wider employee pool as it looks to appeal to a wider community than previously. As stated in the IWFM’s commitment to ED&I:

> “Diversity expands the talent pool, adds perspective and enriches thought, innovation and influence enabling us to promote better inclusion, and allowing everyone to flourish and progress.”

FM Businesses understand the importance of D&I, but find it harder to implement operationally than wellbeing. There can be geographic and demographic reasons for this, however some need to work harder to engage their stakeholders in how to embed the understanding of issues such unconscious bias, thereby encouraging a wider talent pool that will reduce the employment strains in the industry. There is also the factor of developing diversity at the senior level that can shape new ideas for the long-term vision of FM.



Good practice profile: EMCOR UK

EMCOR UK

Building wellness into a service

Working in collaboration with their clients, and the Business in the Community, EMCOR UK developed well-ness for clients. In the form of a drop in community centre for people with mental health issues. Not only are they managing the issue internally, but are able to build it into the services they offer.

Retention through well-being

Strategically, businesses have identified human capital risks at the enterprise level. FM is an employee-centric sector. In 2023, and since the Pandemic there have been external pressures on both employees (high inflation, increased cost-of-living, mental health concerns) and on employers (loss of access to free-movement of people in the European job market, and emerging skills gaps). To mitigate these immediate risks, FM providers are investing in their workplace by looking after their employees' well-being, whilst increasing staff retention by building loyalty within their teams. Multi-pillared people strategies target key elements of human wellbeing – psychological, physical, financial, familial and more. It is hoped that by reducing external stresses on employees and creating better work environments, they can build more employee loyalty, which increases productivity and results in reducing costs associated with recruitment and sick leave. While investing in these programmes, FM must remember to not only build their employee packages but to monitor the effectiveness that they bring. Measuring success is fundamental but not always systematic, so many risk wasting resources on packages that hold little value, while missing others that can bring the desired outputs. The SFMI encourages measuring effectiveness using both subjective and objective measures, and routinely measuring impact and feeding back the results for improvement and staying on the pulse of employee and employer needs.

FM providers have responded by investing in their employee-based strategies across 4 SFMI criteria:

- **Wellbeing programmes**: Build company values, engagement with all teams and show compassion to employees in hard times.
- **Employee development:** Personal development and upskilling to build careers at the company
- **Employee programmes:** Apprenticeships, graduate and internship programmes bring new talent from a diverse group of individuals.
- **Diversity & Inclusion:** Attracting diverse workers in a more competitive job market.

For those on the minimum wage, cost-of-living focussed packages that aim to alleviate external strains on employee finances can improve the mental health of staff.

It can also mean that the company doesn't lose employees to marginal pay increases from competitors, which would lead to the business spending more operational budget on recruitment and training.

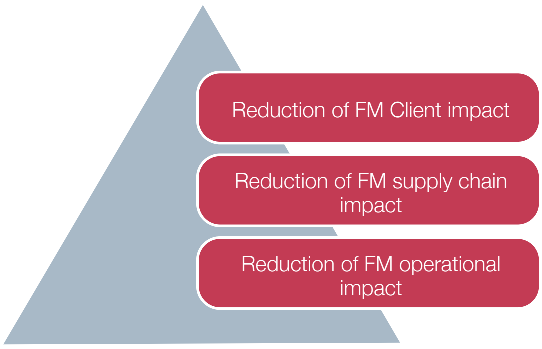
Good practice profile: Churchill Group

Company well-being

Churchill's *Well Me* programme contains an impressive range of resources; launched in January 2023 around 5 pillars of wellbeing. Resources include self-help videos, lunch and learns, awareness days.

The company also track and analyse attendance of webinars and trends in use to inform development of the service. They partner with Super Wellness and are undergoing menopause friendly accreditation, they just signed up to the Neurodiversity in Business charter and they are a disability confident employer.

Driving decarbonisation

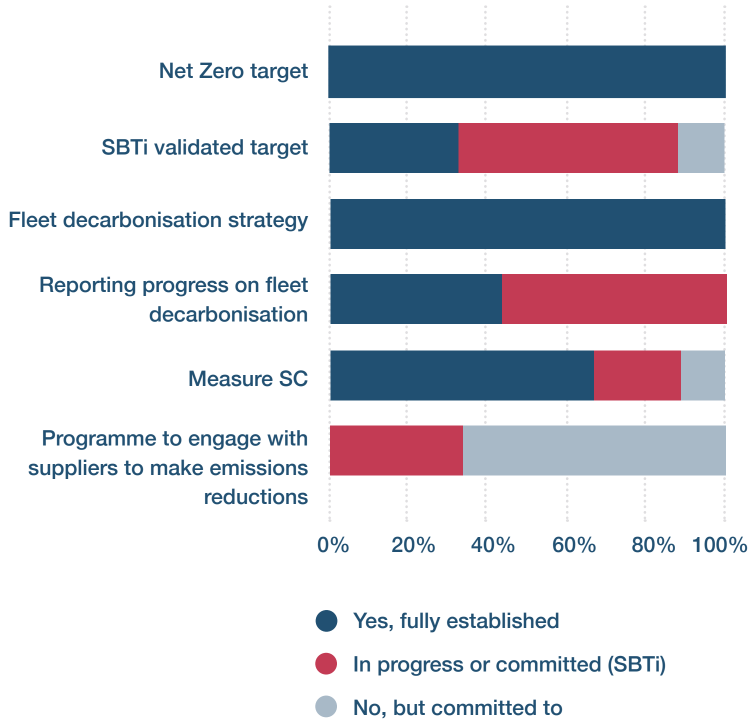


Decarbonisation has been building as a key topic for the industry. The SFMI has been driving FMs to approach this subject as three linked levels of maturity to develop and embed operationally – see opposite.

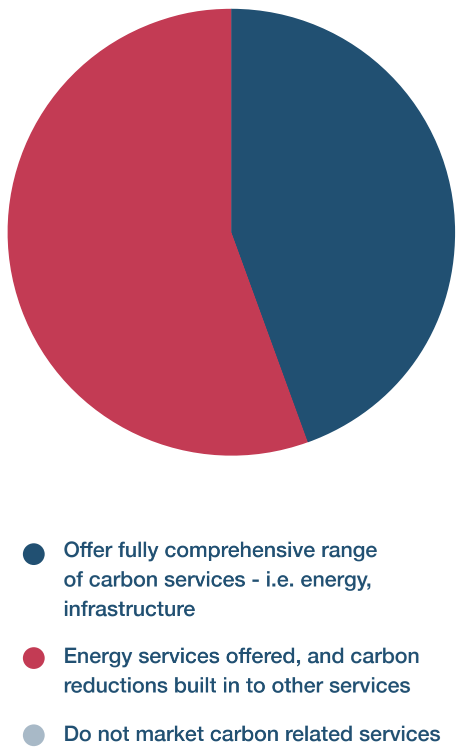
Whilst the impact of the FM is the place to begin, there is no denying that the impact of the supply chain and of clients far outweigh the impact of the FM provider itself. They also represent a higher degree of difficulty to manage. SFMI scoring therefore rewards companies greater points as they build maturity by focussing on supplier engagement. Then also capture the opportunity by delivering value for clients and delivering a greater impact by offering services that take advantage of climate transition.

The SFMI collects a number of data points to score businesses on their decarbonisation approach and can use them as a benchmark for FM providers that are contesting in the field of decarbonisation.

FM progress in decarbonisation



FM providers offering carbon related services



As we can see from our benchmark, net zero targets are a fundamental requirement for the FM industry, and from our partners, all have set a target. This is driven by the need for a carbon reduction plan for government-based contracts. These carbon reduction plans come with decarbonisation of fleet strategies, however, fewer companies are showing and reporting progress towards these targets. Which is something that the SFMI will be evaluating further in 2024. Our sample of FMs have also shown further maturity by either committing to or having an approved science-based target validated by the SBTi (Science-Based Targets Initiative).

These official commitments are seen in two types by FM providers. Firstly, those with construction-based parent companies have a group target. These are being interpreted by FM companies and implemented from an FM perspective. There will have been challenges from a corporate perspective in this approach, because of the impacts of construction, it is likely that the FM will need to work harder to have its impacts registered at corporate level against the impacts of steel and concrete (for example). Secondly, pure FM services providers, both large and smaller have been taking their steps to set these respected targets. There has been an increased number of FMs committed to setting SBTi approved targets in 2023.

Example of a SBTi commitment:

- Overall Net-Zero Target: Mitie Group PLC commits to reach net-zero greenhouse gas emissions across the value chain by FY2046 from a FY2017 base year.
- Near-Term Targets: to reduce absolute scope 1 and 2 GHG emissions 29.4% by FY2027 from a FY2022 base year, and to continue annually sourcing 100% renewable electricity through to FY2027.
- To reduce absolute scope 3 GHG emissions from fuel and energy related activities, waste generated in operations, business travel and employee commuting 25.2% by FY2027 from a FY2022 base year.
- 60% of its suppliers by spend covering purchased goods and services and upstream transportation and distribution will have science-based targets by FY2027. Long-Term Targets Mitie Group PLC commits to reduce absolute scope 1 and 2 GHG emissions 90% by FY2046 from a FY2022 base year. Mitie Group PLC also commits to reduce absolute scope 3 GHG emissions 90% within the same timeframe.

Decarbonisation based services are also evolving based on:

1. The size of businesses and the number of employees
2. Their customer base, and
3. The resources that they have to invest in scaling up.

Larger FMs are building comprehensive decarbonisation services that complement their traditional FM operations. Comprehensive services generally consist of energy building services, alongside infrastructure such as EV infrastructure and solar PV installation.

Smaller or more specialised providers that do not have the resources to offer this wide range of solutions are primarily focussed on energy management services, or in the case of soft services, will be showcasing how their services are reducing their environmental impact. This is a way of differentiating themselves from the competition and aligning with customer values and needs. For example, cleaning services can reduce their impact by removing plastics from cleaning products or using specialised cleaning equipment that reduces water use.

These initiatives show that SFMI partners are building their maturity in how they can reduce impact across all three maturity factors – operational carbon, supply chain carbon and client based carbon, whilst monetising the opportunity for the business.

Good practice profile: VINCI Facilities

Managing customer Net-Zero

VINCI Facilities Net Zero Utilities Management (NZUM) Centre of Expertise has collaborated with Smyths Toys, to deliver energy consumption, carbon and cost reductions through a staff Behavioural Improvement Program, delivered under an innovative gainshare commercial model. The gainshare commercial model meant that the customer didn't have to pay anything until the savings were achieved and proven. Our collaborative approach saw Smyths achieve average electricity savings of 7.75% (against the baseline year) across the GB portfolio of more than 100 retail stores, with the top 5 stores achieving a huge average saving of 27.5%

Supply Chain Management

One of the biggest impacts of the FM provider is through the supply chain. But it is also one of the most difficult to manage. Businesses must understand the sustainability risks in the supply chain, and ensure that they are selecting suppliers that can deliver services in a responsible way. They are also being driven to engage with suppliers to help bring them along on the journey.

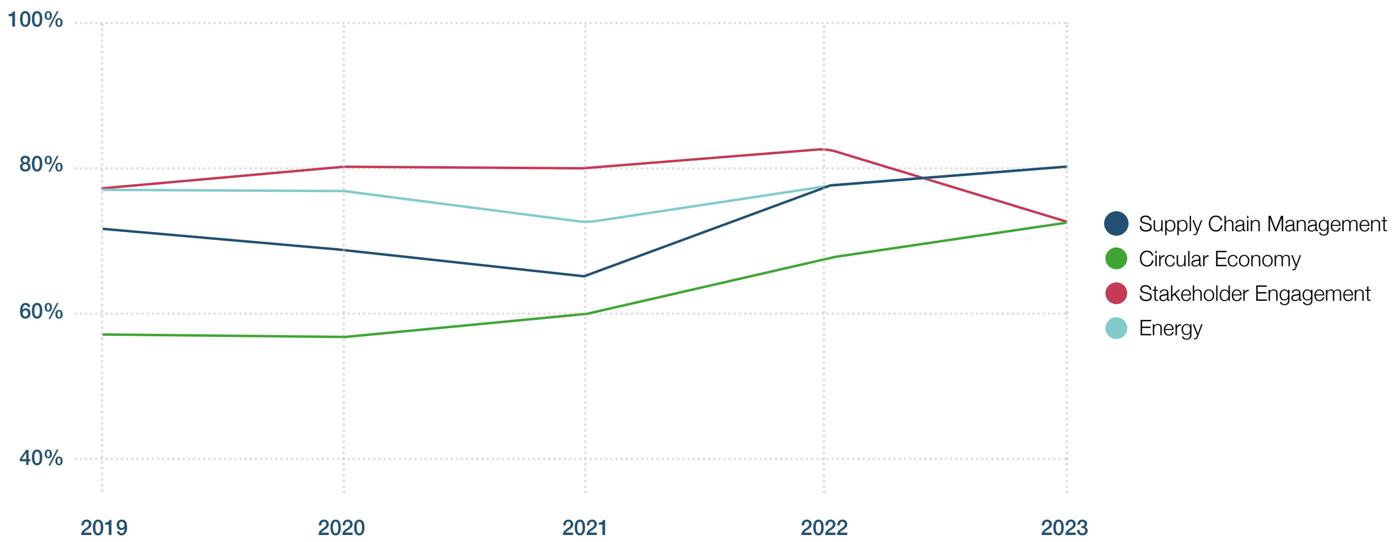
This section looks at the following topics:

- Supply chain management
- Scope 3 emissions
- Circular economy

Responsible supply chain

The ambition of managing a responsible supply chain continues to increase in importance for FM in 2023. This includes the measurement of scope 3 emissions (indirect emissions) that stem from it. This importance is linked to the increased trend of FM providers committing to setting validated science-based targets (which makes supply chain emissions a pre-requisite). This has also led to an increase in the inclusion of supply-chain emissions within net zero targets. This was not common practice only 2 years ago. A key driver for this will have been through the awareness raising that the SFMI and partner companies made to showcase the importance of the topic through the Scope 3 framework for FM. Since then, key providers in the industry have partnered with the SFMI to understand and build capacity to capture a wider scope of emissions especially from suppliers. The aim of the project is for FM to take more responsibility for client related emissions that can be influenced by FM and therefore increase the importance of the industry in decarbonisation.

Average SFMI partner scores for supply chain related criteria



The supply chain management criteria has continued to increase in YoY average scores among SFMI partners, along with other criteria which have strong relationships to supplier management, such as the circular economy. This reflects the growing maturity of the industry in building strategies that move beyond engagement with suppliers from a PQQ perspective and starting to build more granular engagement with tier 1 suppliers. This has not developed yet to full engagement that is resulting in suppliers measuring emissions and reporting reductions annually, but it does represent progress and is setting the foundations. Some leading providers are embarking on incentive programmes in 2023 and 2024, so we are expecting this category to continue tracking upwards in 2024.

Key challenges in a responsible supply chain management programme

1. The size of suppliers in the FM portfolio: FM's with a long supply chain tail that consist of small businesses are building social value in local areas by using this approach, but this makes managing ESG issues such as carbon more difficult as small businesses have less resource to devote to measurement and management. – Aim to focus on the larger businesses, and the stable suppliers with the longest contracts in a systematic approach.

2. Quality of information received from suppliers: Paperwork becomes a burden when onboarding new suppliers, and PQQ questionnaires may differ in quality in the responses. Aim to focus on core strategic questions to reduce reporting burden and stick to the key elements that you require. This will bring efficiency from both sides.

3. Labour intensive for active engagement: Engagement is labour intensive. Tools are available to bring collective benefits, and bring suppliers into platforms that can distribute communications more efficiently.

Good practice profile: Optima

Supplier management

Optima have setup environmental clauses in contracts with suppliers. They prepare their purchasing department to audit suppliers on environmental performance, with higher risk suppliers subject to more frequent engagement. A environmental policy is provided to all suppliers along with an ESG Code of Conduct which requires a signature by suppliers.

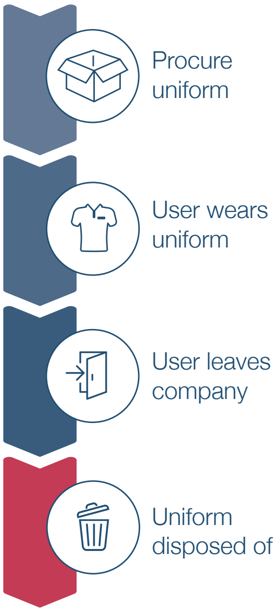
At this stage, supplier-based carbon measurement data is still based primarily on estimates using sectoral proxy data and extrapolating by spend with the customer. Whilst valuable for setting a benchmark, using this method continuously each year will mean that supply chain emissions are not representative of the actual supply chain, and will not measure the impact of a supplier engagement programme. This is problematic if net zero targets are inclusive of supply chain. Therefore, using proxy data without actual supplier data means that the only way for the FM to reduce emissions in line with carbon targets will be through a significant reduction in spend. This is not a feasible solution. Therefore, FMs will need to continue build their engagement with suppliers and incentivise the reporting of actual emissions data that can substitute proxy data for material spend and allow for engagement to encourage reductions in impacts.

Circular economy

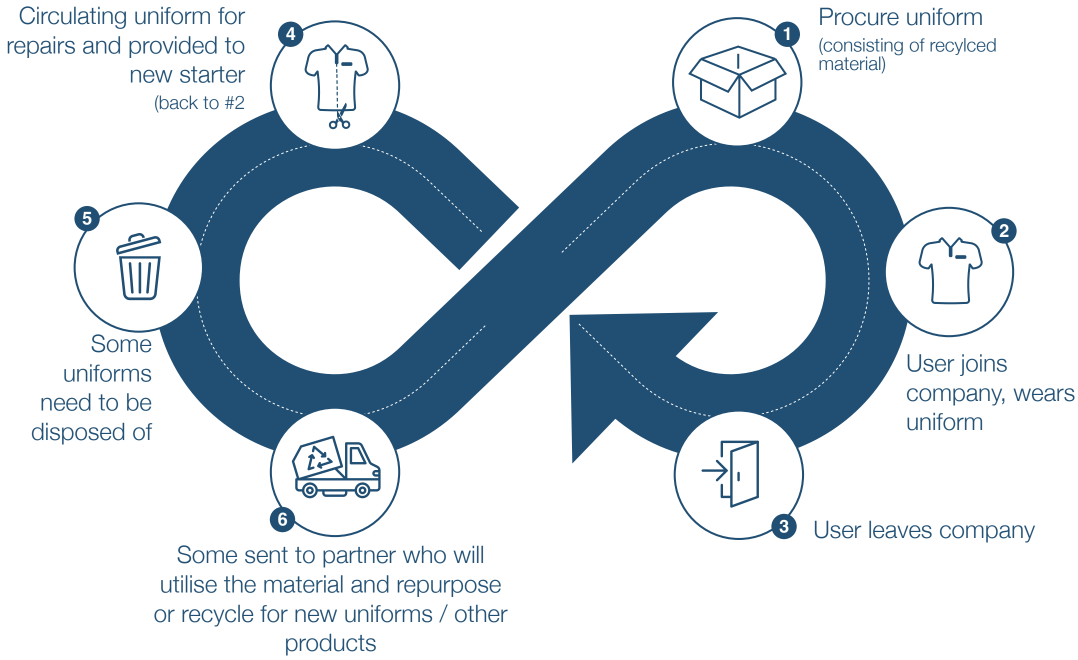
A key area of impact from the supply chain is the circular economy. To achieve high scores in this criterion, the SFMI requires businesses to showcase how they are systematically identifying key waste streams in the supply chain, and how they are seeking solutions to either remove the waste, or create circular systems from it. While SFMI leaders may not be achieving the highest standard of being a circular business, there are inspiring signals of localised projects that identify key waste streams and build solutions that can be monetised for clients.

For example, multiple FM providers audited in 2023 have been finding solutions for uniform waste. Sourcing suppliers that use recycled materials, but also finding solutions for uniforms that have been used already. The aim is to restore and recirculate the garments back into the system rather than discarding them to waste.

The linear system



The circular system



Good practice profile: Mitie

Circular economy

Resourced and supported by Mitie, Waste Match was contracted to remove all FF&E from a large property. This required an internal audit to find reuse of assets within the building. The property was cleared in June 2023 with the aim of prolonging the life-cycle of the maximum number of assets. Over 2,600 surplus assets were reused via a combination re-manufacture, resale and donation.

Good practice profile: Arcus FM

Circular economy

Arcus has established a re-use centre at its training centre in Stevenage where modular racking, roof racks, pipe tubes, inverters etc. from end of lease vans are removed and held in stock for re-installation in new vans. It also removes stock from de-commissioned vans and what can’t be refurbished and/or re-used in service delivery is used for training purposes. Tote boxes are being trialled where engineers pick up new stock from collection points and return old items to be refurbished; the tote boxes are also re-used. It has switched to recyclable vehicle livery stickers (old ones are used to make traffic cones). Leaders from Arcus are talking to suppliers about tools refurbishment and parts replacement in preference to whole item replacements.

The Year Ahead

UPCOMING CHANGES FOR THE FM SECTOR

2023 has seen FM providers building the capacity of their services that are related to sustainability. This includes decarbonisation and the circular economy, while some have made gains in integrating forward-thinking topics such as biodiversity. While the businesses have identified immediate opportunities of generating revenue with new incomes streams, many are not yet understanding the systemic risks associated with dangerous climate change in the long term. These companies will be pushed to evaluate this, and will be rapidly introduced to new concepts that are becoming mainstream in other industries – such as scenario analysis. Honing these concepts along with understanding the risks to their client base will help transform the industry into long-term strategic thinkers that can protect asset value for their clients. This will further supplement the growing operational services that are being built now.

As 2024 approaches the SFMI continues to see FM developing in areas such as:

- **Regulatory disclosures**: understanding double materiality and long-term risk, while being able to measure this risk and incorporate it alongside financial disclosures. This will necessitate upskilling of the senior leadership team in order to build their capacity to discuss this risk at the enterprise level and deliver meaningful action for the business to mitigate risks.

- **Supply chain:** Continuing the journey of measuring scope 3 emissions within contracts, and using this to engage with customers to develop decarbonisation offerings. But also to improve the engagement with the supply chain, and to be measuring the progress that comes from investment in engagement.

Topics that are becoming increasingly a focal point from the investment sector are human rights and biodiversity. As the finance sector begins to grapple with these topics, they will begin to reach out through their portfolios to seek answers. FM has exposure to both these areas through modern slavery and the management of real estate. So should be preparing itself for engagement and offering solutions.

THE SFMI AND THE ASSESSMENT METHODOLOGY

Background of the SFMI

The SFMI was launched in 2013 to address sustainability under a suite of ESG criteria to ensure whole life coverage of the subject. The basis for its development was to:

- Reduce the incidences and prevalence of greenwashing through education of the market and benchmarking of performance
- Showcase the value of sustainability within FM and the benefits that can be achieved
- Drive sustainability best practice and share knowledge within the industry
- Provide improved transparency of delivery to determine value both internally and externally, acting as a structured roadmap
- Encompass both FM providers and client FM teams to allow for more open dialogue.

The SFMI framework scores organisations on a scale of 0-5 across 23 ESG criteria. It provides organisations with a credible single assessment score for comparable measurement and benchmark against other FM companies. In today's world where additional transparency and validation of performance is required, the SFMI provides an simplified way to achieve this. You can read more about the SFMI's 23 criteria, how they impact FM, and what is expected of leaders within the industry here: *The 23 Criteria for Sustainable FM: A SFMI Guide to Sustainability*.

Updates to the SFMI

The SFMI, operational since 2013, is updated annually to keep up with changing trends and requirements within the FM sector. Most of the changes over the years have been to the scoring methodology itself, however in 2022 we introduced two additional assessment offerings – for SMEs, as well as a Standard and Premium audit. We also updated the scoring to reflect trends within the industry, including an increased focus on the supply chain as well as TCFD influences on risk management and finance. We also saw an increased focus on stakeholder engagement at different levels, including internal stakeholders (employees), customers, and supply chain.

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How do the assessments work?

The SFMI assessments consist for three stages:

1 Desktop Assessment

The desktop assessments analyse the organisation's public data available across the SFMI's 23 ESG criteria.

2 Audit

Audits delve deeper into an organisation's policies and procedures through a face-to-face audit (in person or remotely).

3 Additional Evidence

Post audit, Partners are given 2 weeks to provide additional evidence to support discussions had in the audit which may improve their score.

'Tiers' of the FM partners

The SFMI recognises there are 4 key tiers of Partners, 1 showing Leadership in driving sustainability within the industry. Our ambition is to drive FMs towards the highest level. We understand every company starts somewhere and so The SFMI strives to provide guidance on how organisations can improve and move up the tiers.

1. A fully sustainable service that is data-led, responsive to decision-making, flexible, and features a higher-skilled workforce
2. A sustainable value model that embeds sustainability across all service lines and offers sustainability services at a higher price
3. A standard FM service in which specialist sustainability services are available but come at a higher price
4. A basic FM service with no specialist sustainability elements

OUR PARTNERS

Thanks to our other partners

- Aegon
- Co-Op Food
- The Health and Care Professions Council
- Manchester University Hospital Trust
- NatWest
- Nottingham Trent University
- PwC UK
- RBS
- Sophos
- UBS
- UCEM
- University of West England
- Waitrose
- Zurich UK

SFMI
The Sustainable FM Index

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