SFMI SPOTLIGHT

OCTOBER 2025

A WORD FROM US

Welcome back to the Spotlight during a very busy autumn!

The SFMI has been going in full swing with the conclusion of audits at the beginning of October. These assessments provided the SFMI with an excellent understanding of how ESG has progressed in the FM industry over the last year. We saw several key trends (to be highlighted in our report coming out next month!) and overall saw some very promising advances in many of our SFMI Partners. We've also been out and about, with Chris speaking at the Facilities & Estates Management Live event on all things Scope 3, including debunking some myths about the so-called Scope 4. On top of that, our Climate Risk in the Built Environment Guide was referenced in IWFM's recently released Sustainability Survey Report (head to the last page to download both the report and the guide).

Next month will be a busy one, as we finalise scores, publish our annual SFMI report, and host a Partner Forum on Climate Risk in the FM industry. This Forum comes at a key time, as companies are increasingly being asked to better understand and quantify the risks to their businesses. The UK government is in the process of adopting the IFRS ISSB standards (see our article on this later in this issue), which will further raise the bar on what companies need to do to integrate risk management into strategy and governance, as well as expanding requirements on understanding value chains and engaging with suppliers.

One trend we have seen coming out of the SFMI audits is that there is still a missing link between materiality and risk. The Corporate Sustainability Reporting Directive (CSRD) in the EU requires companies in scope to do a double materiality assessment, but this work is still in a nascent phase. Many FMs are still struggling to quantify their risks, and to draw the link between financial and impact materiality. However, as the climate keeps changing and the impacts of physical hazards become ever more present (see this recent article on flooding in England causing whole towns to become uninsurable) FMs, and the wider built environment industry will need to get serious about understanding climate risk.

The Forum on Climate Risk will tackle this head-on, with real-world methods to quantify risk and connect materiality to strategy and governance. We'd love to see you there and hear your perspective.

Kristen Mierzejewski
Senior Sustainability Consultant

REGULATORY UPDATE

UK Government Sustainability Consultations

In June 2025, the UK Government launched a package of three consultations to build a new sustainability reporting framework. The centrepiece is the exposure drafts of the UK Sustainability Reporting Standards (UK SRS), which adapt the ISSB's IFRS S1 (general sustainability disclosure) and IFRS S2 (climate-related disclosures) for the UK. Two companion consultations covered the assurance of sustainability disclosures and climate transition plan requirements. All three consultations closed on 17 September, 2025 and feedback is now being analysed.

Consultation on UK SRS S1 and S2

The cornerstone piece of legislation the UK government is looking to implement is the UK SRS S1 and S2. These exposure drafts largely align to ISSB S1 and S2, with the exception of six UK-specific amendments:

1. **Removing the ISSB's one-year grace period for publishing sustainability information after their financial reports for the first year.** The rationale provided for this amendment was that UK entities have been required to make climate-related financial disclosures aligned with TCFD since 2022, and therefore should be well-placed to report climate information alongside their financial statements.

2. **Extending the transition relief for reporting on sustainability-related risks and opportunities to an additional year.** The ISSB already allows a 1-year extension, meaning that companies only need to report on climate-related matters in their first year, and wider sustainability topics in subsequent years. This amendment would extend this grace period to two years for UK entities, which would allow companies to become familiar with the standards and understand their value chain before reporting against S1.

3. **Removing the requirement to use the Global Industry Classification Standard (GICS) in IFRS S2.** This would allow entities to use any appropriate classification standard that they use within their existing reporting standards, which would allow for increased connectivity with existing reporting.

4. **Removing the 'effective date' clause in IFRS S1 and S2.** This decision is based on the fact that UK SRS will be freely available for any entity to use on a voluntary basis at a time of their choosing. Relevant legislation or regulations will set out required timetables for implementation.

5. **Making SASB Standards and industry-based guidance optional rather than mandatory.** The rationale is to avoid requiring the use of the standards, which may cause an audit burden, as they haven't been through the same ISSB due process and UK feedback was mixed.

6. **Linking transition reliefs to the start of any mandatory reporting.** This clarifies that S1 and S2 transition reliefs apply from the first period an entity is required to use UK SRS under law/regulation, rather than from first voluntary use. This avoids penalising early voluntary adopters while still enabling reliefs when reporting becomes compulsory.

   In addition, we have also noted the importance of service providers engaging with auditors to ensure disclosures under S1 and S2 are robust and assurance-ready.

Consultation on assurance of sustainability reporting

This consultation focused on the assurance of sustainability-related data. In February 2025, the Financial Reporting Council published findings from its markets study into the assurance of sustainability reporting, which highlighted the demand for more stringent regulatory oversight of assurance providers. In response, this consultation sought views on the proposal for creating a voluntary registration regime for entities that offer third-party assurance services for sustainability disclosures. The aim of this proposal is to build a trustworthy UK assurance market and help companies find suitably qualified providers.
The government proposes giving the future Audit, Reporting and Governance Authority (ARGA) responsibility for this public register and regime. ARGA would have the power to determine eligibility criteria, perform inspections and reviews and issue sanctions and fines.

Consultation on climate-related transition plan requirements

This third consultation as part of the government package explored the routes to implement mandatory, 1.5°C-aligned transition plans for major corporates and financial institutions. Building on the UK's Transition Plan Taskforce (TPT) framework, this requirement would help support an orderly transition in line with global climate goals.
The consultation laid out two potential options:

- 'Comply or explain' – Under this option, entities that have not disclosed a transition plan, or equivalent transition-plan information in UK SRS S2, must explain why. This would help boost transparency but may not yield consistent disclosures.
- Mandate plans and disclosures – This option would require entities to develop a transition plan and disclose the transition-plan related information in their annual reporting. It would also require a standalone transition plan document every three years in addition to the annual updates.

The consultation also sought views on defining 1.5°C alignment in order to reach net zero by 2050. It also looked at how to integrate adaptation and resilience as well as potentially nature. The consultation further looked at who would be in scope and any potential legal risks associated with the publication of transition plan-related information.

What this means for FM companies

While UK SRS will likely not come into action until next year, and the phased approach means that it will not directly apply to most FM companies, this does not mean the effects won't be felt across the market. These are the key takeaways for FMs:

1. **Scope and content will expand beyond TCFD.**
   While ISSB S1 and S2 build off the core pillars of TCFD, these standards go much further than both TCFD and the UK's application of TCFD through UK Climate-Related Financial Disclosures (2022). This will be a step-up from the UK CFD regulations for many companies, particularly on metrics, targets, financial implications, and value-chain data.

2. **Ripple effects will be felt throughout value chains.**
   The initial mandatory uptake via the FCA will be for listed companies, however these demands will cascade into their value chain, as requirements for data increase. FM companies are likely to be asked to provide information on their activity-level emissions, energy, waste, water, etc. While the UK Government is still assessing who may be required to report, the supply chain expectations will be felt early.

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3. **Assurance will become the norm.**
   Clients will increasingly begin to seek assurable FM data with clear ownership, controls and traceability. FMs can expect more evidence requests and audit trails.

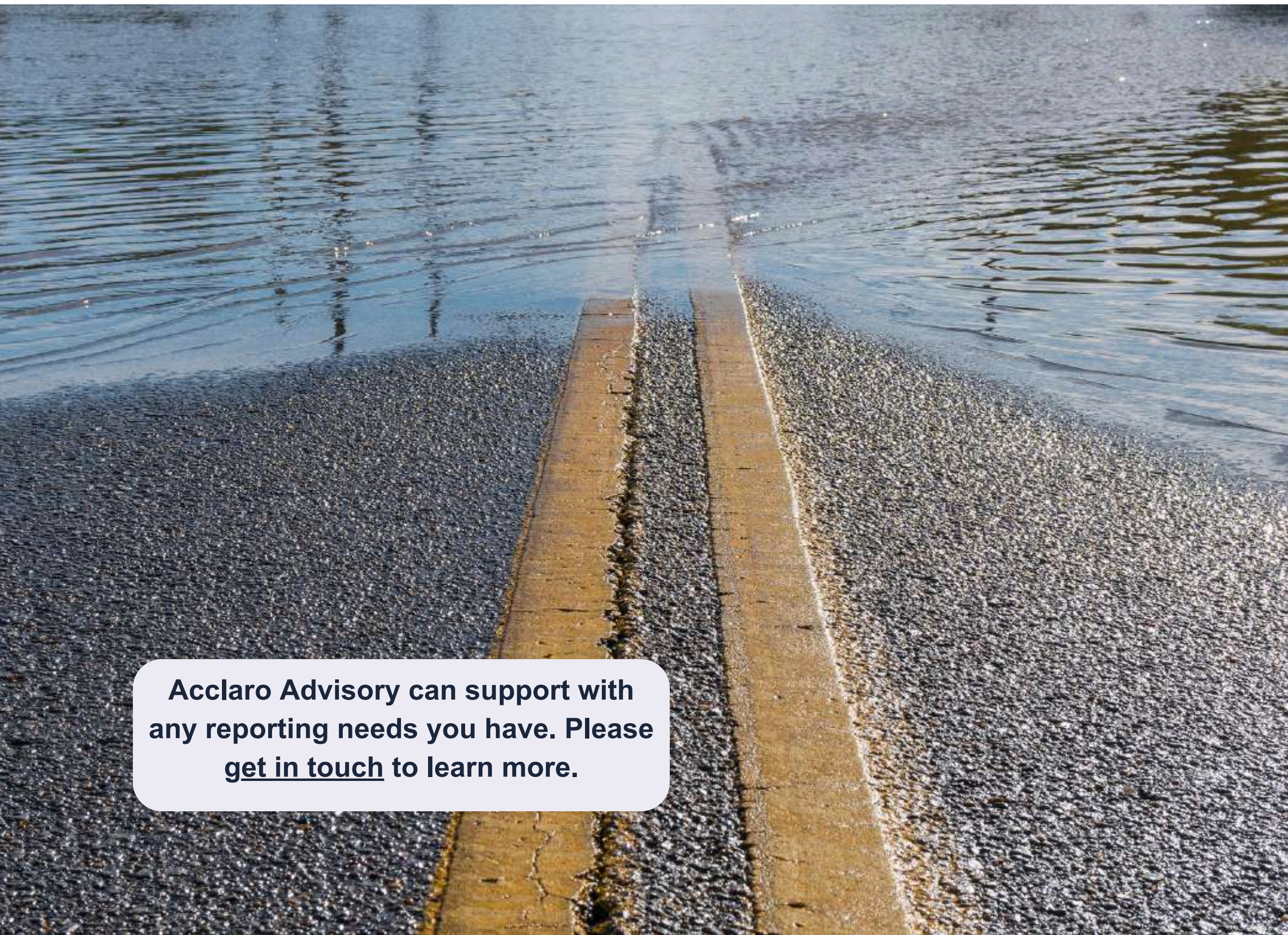
4. **Transition plans are gaining credibility.**
   FMs can expect clients to request FM inputs to their TPT-style transition plans. Banks, REITs and large owners/operators will need credible plans with quantified FM levers. If companies are required to publish TPT-style standalone plans, then they will look to supplier plan alignment and contributions. This will mean that even SMEs may face supply chain pressure.

What do FMs need to do next?

For the moment, these plans are still under consideration. The UK government will likely release a summary of the responses in the coming months. It seems probable that the government will begin implementing UK SRS from early next year, so companies need to begin planning.

Some first steps that FMs can take to prepare:

- Improve emissions data quality: evidence requests will rise with UK SRS, so standardise sources/units and fix gaps early to give clients high-quality data.
- Make climate data assurable: keep clear evidence trails (bills, meter/BMS exports, invoices) and name an owner so disclosures can be assured.
- Track your decarbonisation levers and impacts: record measures and estimated tCO_2e saved to support clients' transition plans.



Acclaro Advisory can support with any reporting needs you have. Please <u>get in touch</u> to learn more.

UNDER THE LENS

RICS Consultation on ESG in Commercial Property Valuation

Over the summer, RICS ran a consultation seeking feedback on the proposed 4th edition of ESG in commercial property valuation, which expands upon the previous 3rd edition. This updated standard aims to guide valuers in their consideration of ESG factors in commercial property valuation, and incorporates the recent global changes in ESG regulations and practice.

What RICS is proposing

- ESG factors can influence the approach and model a valuer uses. Valuers may adjust approach (market, income, cost) and run cross-checks or use scenario analysis where ESG is material.
- Comparable evidence should reflect ESG differences (such as certifications or retrofit plans) when weighting comparable transactions.
- Expected ESG-related costs should be reflected, typically with specialist cost advice outside a valuer's core competence.
- There is scope to recognise uplifts from certifications and revenues from on-site renewables where contracts/measurement support them.

Strengths:

- Recognises multiple value pathways such as income, cost, and marketability effects from ESG.
- Opens the door to monetising renewable energy revenues and operational efficiencies where contracts and data exist.

Weaknesses:

- Operational delivery is underplayed. Guidance leans on whether features or commitments are specified or contractual, less on actual performance in operation.
- The resilience lens is very narrow, and the physical risk discussion is largely flood-centric. Additional hazards are not operationalised for buildings.
- Limited reference made to the benefits from resilience from on-site generation of renewable energy.
- Potential liabilities and forward-looking climate risks are limited, and significant caveats regarding inclusion only if sufficient expertise.

Final Thoughts

The draft moves the conversation forward but still undershoots on climate risk and operational performance. Overall, the standard is weak and doesn't address climate risks or reward the inclusion of resilience to protect forward longevity of properties. If operational risk and future capex aren't evidenced, there's a risk of systematic overvaluation relative to emerging insurance and finance signals.

We also note that incorporating ESG into commercial property valuations requires valuers with the appropriate skills and experience, as this is not a standard service.

UNDER THE LENS

Setting Science-based targets in FM: the challenges and how to be one step ahead

The number of companies submitting science-based targets is increasing. In fact, over 11,000 companies have submitted targets to the SBTi, with 9000 of these having had their targets validated so far. With investor expectations and emissions reduction requirements on the rise, coupled with the necessity of risk management and gaining that all-important competitive advantage, this isn't too surprising.

Although there was been some controversy in the past around the SBTi's intention to allow companies to use carbon offsets at scale, science-based targets continue to gain traction. With their popularity on the rise, the expectations, scrutiny and granularity of the data required by the SBTi is also increasing. Previous news stories have highlighted companies failing to meet their targets within the 2-year window following commitment, resulting in a downgrade to 'commitment removed' on the SBTi dashboard. This represents reputational risks to businesses pursuing a validated SBT.

Why is setting science-based targets particularly challenging for FM companies?

Scope 3 appears to be the biggest obstacle when it comes to companies meeting the SBTi's increasing expectation and goals. Scope 3 emissions in the FM sector can be significant due to indirect emissions from purchased goods and services, transportation, energy consumption and complex supply chains. For many companies, the vast amount of data needed to be able to effectively report on this might be missing, incomplete or of a poor quality for several reasons.

The complexity of operations in FM providers also contributes to the challenge of setting targets. FM companies often manage a diverse range of facilities, each with its own unique characteristics, energy needs and operational challenges. Between delivering the Scope 3 framework for FM and taking FM based clients through the SBTi process, we've gained valuable insights to help companies prepare for setting and submitting their own targets.

3 things for FMs to keep in mind when setting science-based targets

The SBTi are very thorough in their approach, so companies must be meticulous in their preparation and evidence. If there are gaps, the SBTi will question them, delaying the process while you gather and submit the required information.

Having supported FM companies through the process of setting and submitting their science-based targets, we've identified key areas worth focusing on to ensure a smooth validation process.

1. **Energy consumption on client sites for your services**

The SBTi will request data on energy consumption from your services on client sites, whether it's cleaning, catering, grounds maintenance, security or other FM services. The SFMI first highlighted this area during the consultation process for the development of the Scope 3 in FM framework. It was deemed a major challenge during the programme as access to client data is often unavailable and the ability to manage it can be debatable depending on the contract, so it was somewhat unsurprising that it arose during engagement with the SBTi.

This is a challenge, but should be seen as an opportunity for FM. It will enable resource efficiency (identifying inefficiencies and opportunities for optimisation), particularly crucial in a time of fluctuating energy prices. This represents the ability to deliver added value to customers by either helping to reduce theirs informally or formally, dependant on the service provided. Measuring and communicating this value is therefore beneficial to FM.

Energy-efficient practices not only reduce emissions but will also result in cost savings for your business and your customers, so addressing this now will be beneficial for your organisation in the longer term, not just simply helping with SBTi validation.

Suggested action: Companies should be documenting the equipment they use on client sites. By recording key information such as the number used per site, make, and whether the equipment uses gas or electricity, you can build a log of this equipment. It will help you to determine lifecycle upgrades in the future, behaviours of FM services and can help to build effective communications to clients of potential savings in using your services.

2. Staff travel to and from multiple sites

Emissions associated with cleaners, security guards, engineers and other staff who are visiting multiple sites is also often overlooked. Travel-related emissions typically focus on the commute of central staff to their centralised place of work rather than FM staff. However, all travel-related emissions will contribute to a company's overall carbon footprint, so this data is important when setting ambitious and measurable targets with the SBTi. It is also beneficial to real estate owners that are calculating whole life carbon assessment of buildings (WLCA). This is evident in an update by RICS in 2023, now incorporating the quantification of the impacts from *user activities* (ie travel) that are related to the asset under a carbon assessment. This shows that it is not only the SBTi that is incorporating broader, previously unmeasured activities such as travel to sites.

Suggested action: Companies wanting to gather this data should engage with their staff, perhaps in the form of a survey. Include questions to build up the bigger picture such as:

- What mode of transport do you use to travel to site?
- How far are you travelling on average to get to sites?
- If driving, are you car sharing?

From the responses, this data can be extrapolated to give a more accurate idea of transport emissions associated with your organisation.

3. It's all in the detail

As we've mentioned previously, the SBTi is very rigorous with their questioning and will query any missing information which they deem to be relevant. For example, in the case of a catering company who outsources the procurement of food, the SBTi were still asking about FLAG (Forest, Land and Agriculture) emissions.

FLAG emissions are a specific category of GHG emissions covering emissions from activities in forests, land and agriculture sectors. Emissions from these sectors account for 22% of global greenhouse gas emissions. For this reason, the SBTi have developed specific FLAG guidance for land-intensive sectors. While in this case it was argued that FLAG emissions were not relevant, it still required preparation and research to respond to the request. So be sure that all bases have been covered prior to starting the process.

These are just three things FM providers should be considering when gathering sufficient data to submit science-based targets. Not only will this help with setting targets, but it's also important to help companies prepare to navigate the regulatory, transition, and financial risks associated with climate change.

Acclaro supports companies through the process of setting science-based targets, as demonstrated by our work with Churchill Group, which culminated in the validation of their targets in April 2024.

Latest from the SFMI

UPCOMING EVENTS

SFMI 2025 Report Launch Webinar

It's that time of year! This year's webinar will be taking place on Thursday 27th November at 9:30am, where we'll be sharing the insights from this year's audits, providing an update on the changing regulatory landscape, and launching our annual report.

We'll be focusing on four key themes, and will be diving into the trends we've uncovered across each of the following areas:

- Decarbonisation
- Risks & Opportunities
- Social Value
- Wellbeing

We look forward to seeing you there!

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