Balancing act: How to align social and environmental interests in the UK in the light of the pandemic and in the pursuit of net zero

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Abstract

Examining the interactions between the environmental, social and economic challenges of delivering on decarbonisation, this paper makes practical evidence-based proposals for how all actors need to change to survive disruption and enable the organisational flexibility, speed of decision-making and democratic mandates needed to steer a more confident path to net zero.

To navigate uncertainty, build public support and get the behaviour change needed, the paper shares research on how a focus on public purpose and social and environmental outcomes can help change the culture in energy companies, policy makers, regulators, investors and civil society groups. It explores what all sides can do to ensure that engagement, governance, disclosure, risk and leadership are firmly focused on delivering goals such as net zero and are better placed to identify and promote common interests and co-benefits and deal with difficult trade-offs in a fair and balanced way.

Overview

In this decisive decade for climate change, decision making structures and processes in the energy sector – including those in businesses, government and regulators – face multiple environmental and social challenges. On the **environmental** side, there is increasing recognition that decarbonisation is not the only issue faced. There is a rapidly growing need to also tackle climate and wider natural capital impacts, including on biodiversity. Addressing these can be vital to the delivery of net zero, for example, through ensuring the resilience of energy networks or the supply chains for EV batteries.

On the **social** side, decision makers are being challenged by the need to be seen to ensure the risks and rewards of decarbonisation are shared in a fair way. This includes both within generations (ensuring no one is left behind in the transition, whether this is individual consumers who may struggle to afford or access new services or communities and regions that may be at risk of losing jobs with the shift away from fossil fuels) and between generations (who may face higher costs if decisions are put off, optionality is reduced and natural tipping points are passed). Giving these social dimensions of the transition, due attention is vital from a moral point of view and to ensure basic decisions as to who pays for decarbonisation and adaptation are seen as legitimate and fair. Without this, the behaviour change needed for the shift to net zero may be difficult.

The **pandemic**, by exacerbating and extending social inequalities, has made this challenge more acute, both in terms of the pressing need to use limited bandwidth to tackle short-term vulnerabilities but also in terms of addressing longer-term issues (including higher levels of public debt leading to ongoing pressure to reduce expenditure). However, Covid-19 has also pointed to how, when there is a clear and agreed need, government can rapidly unlock investment at scale and can facilitate mass behaviour change.

The pandemic is clearly not the only other social challenge – and opportunity - that energy actors face in the coming decade. The redesign of the energy system is also a key part of the **fourth industrial revolution**. Whilst AI and big data have the potential to create smarter ways of delivering and using energy, they can also lead to new winners and losers, and have the potential to lead to structural changes in employment and increased job insecurity for many energy consumers and communities.

These points, plus related Brexit impacts, add to the **complex environmental, social and economic background** against which decision making for net zero needs to take place. Taken together, these issues point to a deeply uncertain decade ahead. Unless they are addressed, social risks can amplify environmental risks – and vice versa.

Whilst there might be some common ground between different players, there can also be competing interests. **To deliver effective change, there needs to be greater focus on discovering common interests, maximising co-benefits and dealing with trade-offs in a fair way.**

Sustainability First's major **Fair for the Future Project** carried out an extensive three-year research programme with companies, regulators, policy makers and civil society groups in the energy, water and comms sectors to examine how, given this context, decision-makers in UK essential services can best balance different interests to deliver public value - including, but not limited to, on net zero.

Our research indicates that given the **scale of the transition we are going through and the pace of change needed** in the energy sector but also across society to secure the behaviour change necessary, the **roles and responsibilities** of all actors – policy makers, regulators, companies, investors and civil society groups - will need to be recast.

Much important work is already looking at what this means for net zero from a technological point of view. However, far less attention has been paid to the changes in decision making processes needed to build **public support for change** and ensure these technical **solutions are acceptable, work in practice and survive the 'implementation challenge.'**

Governance and institutional arrangements will undermine net zero unless people sit at the heart of the solution. And companies will stay stuck in a compliance world focused on yesterdays' problems with a commodity/supply side mindset rather than transform into net zero service/adaptation providers.

Things are starting to change. Our research has shown how many companies are starting to put **public purpose** at the heart of their decision-making processes to enable this shift. If this is embedded in their strategies and across their organisations, this can help them work with their stakeholders (interna and external) so that they have a deeper understanding of how social and environmental risks can become material to their businesses and to take proactive action accordingly.[i] Companies which do this tend to be more forward facing, able to predict risks before they crystalise and respond to new challenges in a flexible way. If they can demonstrate that they have shifted their mindsets away from being purely compliance focused to take on board this wider perspective, they are better able to gain - and crucially maintain through disruptive change - a licence to operate.

However, energy companies and other utilities don't operate in a vacuum. Unless **the policy and regulatory frameworks** in which they work also shift, it can be difficult for them to evolve in this way. Regulators and policy makers now also recognise the importance of flexible regulation and the benefits of a more adaptive approach. However, more dynamism is still needed to cope with disruption. This requires actively supporting the deep cultural shift needed to focus on desired outcomes and the behaviours that will help deliver these as we navigate uncertainty.

Policy makers and regulators need to s**tep back and fundamentally review existing approaches** – not just tinker around the edges. This means moving away from narrow short-term econometric models and a series of winner takes all one shot games to new approaches which also take account of **values and principles**. Approaches which consider how outcomes are delivered over **multiple decision-making periods and across systems**. Approaches which engage people in fundamental decision making and consider **who pays for what – consumers or tax payers** - rather than just willingness to pay for a predetermined set of options. And which – when the 'game' isn't working – rather than seek diminishing returns and further entrench adversarial relations, considers changing the rules of the game.

In this new uncertain world, our research highlights that **engagement, relationships, governance, disclosure, reporting and metrics** all become more important in the decision-making tool kit. This may be a challenge for some energy economists. A challenge which requires them to give **behavioural and cultural approaches** far greater prominence in their work at the early design stage – not just as a 'bolt on' activity to the main business of regulation or a way of fine tuning an already agreed approach. To deliver net zero, this will require a truly **inter-disciplinary approach** where economists work far more closely with other social scientists including philosophers, sociologists, geographers, politicians, historians - and even artists – to creatively rethink social systems and develop approaches which have the ability to handle difficult ethical questions and trade-offs hard wired into them.

Methodology

This paper summarises the findings of Sustainability First's '**Fair for the Future'** project (Phase 1 - 2018 to 2021).[ii] This project was established to help utilities better address the politics around fairness and the environment. Focused on the energy, water and communications sectors, it explored how companies can maintain a social contract with society through disruptive change and what a focus on purpose and public value means for companies, policy makers and regulators.

Key research included:

1. **Developing, testing and proving the concept of a 'Sustainable Licence to Operate' and what purposeful business means for the energy, water and communications sectors**: It's vital that if a company wants to use private capital to deliver public value, and to be seen as trusted and legitimate, it must be able to demonstrate that it is having a beneficial public impact and show leadership in this area. So what can utility companies themselves do to put public purpose into action? Following a literature review, we produced a strawman 'sustainable licence to operate' and **t**ested this with key stakeholders in four high-level all-day 'action research' workshops and against 18 case studies, including five deep-dives from outside the utilities sectors. We carried out primary qualitative research on how energy and other utility companies had embedded purpose in their organisations with 'talk into action' bilateral depth interviews and summarised all of this research in a 'How to guide' for companies on this issue. [iii]
2. **Delivering fairer social and environmental outcomes through a deeper understanding of political and regulatory risk**: published stimulus Discussion Paper on 'conventional' approaches to risk in terms of fairness and the environment.[iv] Undertook primary qualitative research on how companies and investors view social and environmental risk, including a round-table with utility investors.[v] This drew on a series of research notes and literature reviews on political and regulatory risk and: climate and the environment; the consumer / citizen lived experience; the media; and the role of civil society.[vi]
3. **Identified what a 'Sustainable Licence to Operate' and the purposeful business agenda means for policy, regulatory and governance frameworks, relationships and business models**: commissioned Slaughter and May to provide a pro bono legal analysis of current legal and regulatory frameworks and duties and sustainability in the energy, water and communications sectors.[vii] Carried out literature review of sustainability metrics all actors can use to provide assurance that they are delivering on public interest outcomes.[viii] Building on this analysis, and following workshops on the role of stakeholder engagement and adaptive regulation, produced a final report on regulation for the future.[ix]

<u>Results - Research findings relevant for energy companies</u>

Our work under the Fair for the Future project explored what needs to underpin purposeful businesses if they are to maximise their delivery of public value when delivering goals such as net zero. For the purposes of this paper, we use the following terminology:

> ***"A company's public purpose** is the **distinctive contribution** that it makes to society and the environment in which it operates. It is **what the company is there to do** in terms of the **impacts** it has on its customers, citizens, communities and the environment and how these impacts **create societal value**."*

Our research identified that a focus on corporate purpose is in a company's own interests:

- **Driving value creation**: Academic literature indicates that a focus on purpose can help businesses cope with technological change and withstand social, economic and environmental shocks (including but not limited to net zero)[x], lead to innovation and more sustainable value creation[xi] and motivate and inspire teams by connecting culture and strategy;[xii]
- **Investor pressure:** Investors are increasingly interested in the Environmental, Social and Governance (ESG) factors that provide financial resilience and can drive value creation. Larry Fink, BlackRock's CEO's, latest letter, notes that there is now a clear 'sustainability premium.'[xiii] A focus on social purpose can provide assurance in this area;
- **Central to responsible business:** Social/public purpose is widely seen as a key way of ensuring businesses play a full and active role in delivering the UN Sustainable Development Goals (SDGs) and deliver a Social Return on Investment (SROI);
- **Legal requirement:** The Financial Reporting Council's 2018 Corporate Governance Code requires the boards of listed companies to '*establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture*.'[xiv] The FRC is actively reviewing this area and giving it greater importance;
- **Attracting talent:** Millennials are increasingly looking to work in companies that are able to demonstrate their social and environmental impacts;
- **Regulatory pressure:** Ofwat has led the way in increasing regulatory focus on the role of company's in delivering public value.[xv] This requires more than a compliance approach. The Chair of GEMA has recently written to energy network company chairs to begin a conversation with them on governance and board leadership.[xvi]

A focus on purpose can also help deliver net zero and wider public value if it leads companies to focus on how to solve the problems of people and planet profitably – rather than from profiting from causing problems.[xvii]

Our research for the Fair for the Future project identified **four key themes that need to underpin a purposeful business that wants to deliver environmental goals such as net zero in a fair way**.

The research found that a purposeful business:

1. Builds its public purpose on the firm foundations of **ongoing stakeholder engagement**[xviii]. This means the company:

    a. Has mechanisms to **identify strategic and local priorities for the area in which it operates** (as opposed to ad hoc research) – I.e. what is important from a customer / citizen / community / environmental point of view in terms of social value creation;
    b. Develops **strategic partnerships and collaborations** with key external stakeholders (eg landowners, debt advice organisations etc) for the delivery of social outcomes;
    c. Understands what 'fair returns' look like from different stakeholders' points of view and what **fair risk / reward sharing** arrangements in new partnerships should look like.

Our research has found that meaningful engagement needs to be real and tangible, start from where people are rather than where decision makers would like them to be and be focused on key problems not existing engagement processes.

Our research examined how engagement can help identify **common interests and co-benefits and the stakeholder values** that can be crucial in dealing with difficult trade-offs.

To build social support for the low carbon transition, it is important that engagement is inclusive and involves the full and diverse range of those impacted. This necessitates taking an **approach that goes beyond consumers to also include citizens and communities**. Where appropriate, it also includes the need for co-creation of solutions; particularly at the local level in monopoly businesses.

Stakeholder engagement can provide foresight into how social and environmental risks become material in a company and the wider sector. If done well, it will **reshape governance** – not be a regulatory adjunct. And rather than just be used to determine a narrow view of **willingness to pay** for a pre-determined set of options, it can **set agendas and give people and communities a degree of agency in their delivery.**

2. Is able to **demonstrate how it is delivering its social purpose** and what social impacts it is having. This means the company:

    a. **Measures its performance** against the **full range** of its different activities through **holistic reporting** (eg through reporting using the 'six capitals' approach, Social Returns on Investment etc);
    b. Reports to all of its key stakeholders on its performance in delivering social value and has a **coherent narrative** around the impact it is having for its customers, communities and the environment that is meaningful to them;
    c. Shows **leadership for itself and the sector** in terms of its positioning and strategy on social value.

Given the challenge companies can face in demonstrating that they are acting responsibly – particularly given the millstone of history of, in some cases, past bad behaviour, poor performance and excess returns – and the proliferation of metrics, our 'Sustainability metrics' report examined the issue of reporting and the **Environmental, Social and Governance (ESG)** factors investors use through a specific utilities lens. These metrics are vital to help regulators identify genuine approaches to responsible business and to avoid purpose wash.

Improved disclosure of social, environmental and cultural metrics and the development of company specific **balanced scorecards** can provide **assurance** to key stakeholders that companies are acting responsibly. This can help forge a new social contract for the net zero age and help the sector break out of price review cycles; creating a more constructive environment and safe space for difficult conversations about distributional issues.

3. Ensures its **people and culture** are focused on delivering its social purpose. This means the company:

a. Develops its social **purpose and values** statements with its team so that they have a sense of ownership and understand their roles in their delivery;
b. Ensures **recruitment, reward, retention and succession planning** are aligned with the delivery of the company's social purpose; and
c. Opens itself up to **internal and external challenge** in terms of how effectively it is delivering on its social purpose.

Uncertainty requires a focus that goes above and beyond compliance to also consider how the culture in an organisation can help or hinder the delivery of wider social and environmental outcomes such as net zero. Greater focus is needed on **people, leadership and collaboration** to move from supply side solutions to a mindset which takes account of how infrastructure, markets and services are operated and to whose benefit.

4. **Integrates social purpose into its core strategy**. This means the company:

a. **Systematically** considers its social purpose and the social impacts it will have in its strategy development and in all key strategic decisions, particularly when these involve trade-offs;
b. Ensures an approach to social purpose is **embedded across the organisation** and does not nest this in one department or function (eg customer service or regulatory affairs); and
c. Pulls together intelligence on social impact from across the business into one place so that all sides have a **holistic and coherent evidence base** to inform their work and develop their narratives.

To examine how purpose can best be embedded in a company, we examined issues such as **the role of the company secretary** in putting corporate purpose into action[xix]. We then explored issues such as how utility companies really understood the social and environmental risks their businesses faced, the key factors driving these and how, if left unchecked, these could lead to regulatory risk and policy uncertainty. We reviewed utility company **approaches to risk and their risk appetite** for key social and environmental factors and produced a guide for company boards on risk and resilience[xx] and a risk framework for helping boards to navigate through Covid in a way that mirrors the values they aspire to.[xxi]

Results – Research findings relevant for energy policy makers and regulators

Whilst there is a significant amount that companies need to do themselves to deliver public value in areas such as net zero, they clearly do not operate in a vacuum. The legal, policy and regulatory frameworks in which they operate can both help and hinder their ability to have a beneficial social and environmental impact.

Our research identified that getting the 'push and pull' dynamic between companies, government and regulators right is crucial if purpose is going to be put into practice. Moreover, genuinely purpose- led utilities offer the opportunity for a radically different more mature relationship between companies, citizens and regulators. This agenda can also foster 'the right kind of investors': committed to long-term UK investment delivering private and public value.

The pro bono research carried out for us by Slaughter and May on **sustainability, law and regulation** in the utilities sector concluded that companies, regulators and policy makers already have a tremendous amount of **flexibility** in how terms of how they approach sustainability. The key question is often how to interpret, and then implement, change. In our view, this requires bravery on all sides. Legitimacy needs not only to be earned by companies, it needs to be enabled and promoted by regulators who in turn look to government and parliament for their ultimate legitimacy.

Building on this research, we produced a report on regulation for the future and the implications of public purpose for policy and regulation in utilities. This examined how regulation needs to adapt to get better focus on long-term issues and the needs of future generations and to take account of regional and local approaches and community views.

To navigate through these fast-moving waters, and to move away from the current adversarial relationships, we proposed that **government should fundamentally review its approach as to what it takes to develop a purposeful utility sector**. Our research concludes that **policy makers need to give clearer signals to regulators and companies on social and environmental issues**. Government needs to ensure that their asks of and **incentives to different regulators are more strategically joined up, and that major trade-offs** – e.g. intertemporally – **are not ducked**. This means, for example, **clarifying roles** so that there is collaboration to co- produce and then deliver a single agreed net zero pathway and climate adaptation plan.

Where government may not be central to the agenda (e.g. on issues other than net zero, fairness, adaptation and biodiversity), our report urged policy makers to step back and give the space for the major change which is needed on purpose and the surrounding issues in these areas.

There are two key areas, however, where our research indicates that government and regulators need to work more closely together and prioritise for attention. The first is around welfare. **A wider debate about fairness and utilities, and the balance between the welfare state and utility company support for vulnerability and deprivation, is urgently needed.** The second is around **local and regional issues**, given for example that climate and growth pressures –and energy sources – vary between regions. Government and regulators need to urgently address questions of how to interact/facilitate interaction with community and local/sub regional democratic process and with the place agenda.

For regulation itself, the implications of the purpose agenda are wider. Thirty years since the design of the current regulatory system, our research emphasises that a more fundamental rethink is necessary.

If the existing regulatory model is to be maintained, and in the absence of major institutional change, we concluded that a significant overhaul in how it is applied is required. Our research identified that comparative competition in monopoly activities, and the emphasis on customers rather than citizens and communities, has led to a focus on what can be measured and monetised. Although this has encompassed some elements of the wider social, environmental and economic outcomes that are needed for sustainable wellbeing it can also act in opposition to others, where monetary values and comparison across companies are not readily available and/or where community engagement plays an important co-invention role. **Econometric models – particularly when backward looking – and detailed, prescriptive outcome measures have exacerbated short-termism and dampened innovation**.

The regulatory process desperately needs a **clear voice for the long term** and regulatory processes need to be overhauled to take account of long-term issues. Our research has indicated that intergenerational issues and pathways to net zero and adaptation cannot be conducted principally through 5- year price reviews: the incentives to put difficult decisions off have time and again been shown to be simply too great. We need a fundamentally new process of **'adaptive planning' and a recognition that 'one size doesn't fit all'.**

Our research indicates that regulators have also become risk averse and softer issues, such as engagement, governance, culture and non-competitive approaches including partnerships and collaborations, have been neglected. To deliver wider social value, and cope with disruption, **regulatory culture needs to become as purposeful as that of utility companies.** The current degree of emphasis on comparative competition, econometric models and multiple targets cannot create enough space for companies to fully move in the purposeful direction.

Safe spaces need to be created for company / regulator dialogue, free of the series of 'one-shot games' – and mutual distrust – which plague sectors like energy at present. Regulators should take those parts of company business plans which are high on social content and relatively low on bill impacts out of the price review process – or more specifically that part of the process which is based around comparative competition and econometrics. Where done properly, **customer/citizen engagement, community facing approaches such as deliberative I, local negotiated agreements and organisational forms such as Community Interest Companies are all better and more legitimate solutions for these kinds of issues**. There is also growing evidence – which has accelerated with the Covid-19 epidemic – of the non-monetised value communities place of the natural world.

Regulation is not standing still. Regulators are already clearly changing their approaches to flex and meet environmental and social challenges but the jury is still out on how much difference this will actually make on the ground. In our view, change needs to be much more strategic and systematic and create what Chief Ombudsman Matt Vickers has termed 'an infrastructure of trust' – between regulators and companies and between customers/ citizens and companies.

An important corollary to this is that government must recognise that **regulators will need to experiment/innovate and that this inevitably carries some risk** – by its nature not all innovation will work. Regulators need the space and the permission to loosen the reins in some areas and delegate assurance and decisions to third parties – including local communities. This also applies to how the NAO, CMA, Departmental Select Committees and the Public Accounts Committee approach the agenda.

Our **recommendations** for change include.

1. **Purposeful approaches**: Companies need to adopt the purposeful business agenda as a strategic vision and to drive a public value culture and regulators and Government need to work with and foster this shift.
2. **Trust, culture and principles:** A comprehensive package of measures is needed to create a fundamentally different culture on all sides. Government, regulators and companies need to work hard to build safe spaces for mature discussion of difficult issues. A new set of 'Sustainability Principles' for economic policy and regulation is needed to create the appropriate values and norms for purposeful business.
3. **Who pays for welfare:** Government needs to urgently clarify how it sees the balance going forwards between the welfare system and utility company support for people in fuel and water poverty and who cannot afford to access broadband, now and in the future. The debate of who pays – bill-payers or tax-payers – cannot be ducked any longer.
4. **Citizen interests**: Policy and regulation in utilities needs to move from a focus primarily on consumer interests to also include citizen interests. All parties need a significant reappraisal of the role of place, local democracy and communities in utilities, particularly where these are place-based anchor institutions in a local area.
5. **Price reviews:** Regulators should only do those things through formal price reviews which cannot be done well through other routes. They should take those parts of company business plans which are high on social/environmental content – particularly if hard to monetise – and relatively low on bill impacts – out of the price review process (where this is based around comparative competition, outcome incentives and econometrics).
6. **The NAO and CMA:** These two bodies need to coinvent and reinvent how they interact with regulators on the purposeful agenda, to allow regulators to adopt a more permissive approach without facing reputational damage where properly considered innovation/experimentation does not ultimately deliver the benefits hoped for.
7. **Adaptive planning:** A fundamentally new process of 'adaptive planning' is needed – with future thinking and scenarios at the heart of infrastructure investment plans and plans which deliver over multiple price control periods.
8. **Beyond 5-year price reviews:** A significant reappraisal of the economic regulatory approach to long-term infrastructure is required.
9. **Regulatory duties:** at a minimum Ofgem, Ofwat and Ofcom should all have net zero statutory duties. Ofgem and Ofcom should also have climate resilience and adaptation duties, in the same way that Ofwat currently has.
10. **Strategic Policy Statements**: Government should widen its use of Strategic Policy Statements to regulators, including to: ensure that long-term issues are not deferred unnecessarily; require improved liaison with Local Authorities and directly elected mayors; and direct more *strategic* inter-regulator working on systems issues, such as

climate and resilience, and common issues, like culture and governance – where there is an opportunity to more widely leverage the work of the Financial Reporting Council.

11. **Levelling up and utilities**: There is scope for a piece of freestanding government sponsored work looking dispassionately at the regional and sub regional balance of utility infrastructure assets, needs and spend.
12. **Climate adaptation**: Government should further develop its net zero and fairness agenda, to cover climate change impacts and wider resilience needs.
13. **Stakeholder engagement**: There remains a strong role for formal company level independent groups and wider company stakeholder engagement (although the remit needs to focus more on purpose, local/community engagement and fairness and culture). Taking some issues to regional or national level – via regulators and policy makers as appropriate – and using deliberative forums such as citizens' assemblies – is vital.
14. **Innovation:** There needs to be a much clearer pathway from innovation pilots to industry wide change and more testing of behavioural approaches.
15. **Third-party assurance:** Regulators should institutionalise a significant role for third party and risk-based assurance, concentrating instead on the things only regulators can do well, thereby deescalating at least part of the current regulator/company tension.
16. **Licence conditions:** regulators should consult their sectors on whether to amend utility company licence conditions to cover public purpose.
17. **Diversity:** Government and regulators should work together to ensure that regulator boards and senior management are, and are seen to reflect, the full range of regulatory duties. They need to contain genuine diversity of skills and of approach, thinking and culture. Appointment should, however, always be on merit.
18. **Regulatory co-ordination:** Regulators need a fundamentally more *strategic* joined up approach across sectors, based on recognition and understanding of system interactions and co-resilience.

Conclusions

To navigate disruption across society as we move to net zero will require a very different set of tools and approaches than has been the case in the energy sector in the last thirty years. We need to place far greater emphasis on culture and behaviours than in the past if we are to cope with ambiguity and uncertainty and get the behaviour change needed by all actors at the scale and pace required.

Sustainability First's wider research has absolutely recognised the need for technological change and the introduction of wider mechanisms and 'hard levers' such as carbon taxes to deliver net zero. However, without also taking account of culture, behaviours and mindsets, it will be difficult to build public support for decarbonisation and to make some of the difficult ethical trade-offs that will be required, both within and between generations, going forward.

Our research for the Fair for the Future project has identified an acceptance of the importance of these issues on the part of many energy businesses; often triggered by investors and wider stakeholder pressure. However, there is a way to go in some companies before approaches to purposeful business are fully embedded – and there is a real risk of green wash.

For meaningful change to happen, we have identified the need for policy and regulatory frameworks to also change to support the purposeful business agenda and help maximise public value creation. We are encouraged by the shifts starting to take place but these are not happening at the scale and pace required to deliver on net zero and other agendas. There is much that the energy sector can learn from others here, in particular the work that has been done to further public purpose in the UK water sector.

To help support the culture change needed and encourage more dynamic decision making and work across sectoral and system boundaries, Sustainability First has recently launched its **'Sustainability Principles'** project. This aims to:

1. Support the paradigm shift in mindsets starting to take place in regulators, policy makers and companies in essential services so through their culture and processes they take a fundamentally different and more sustainable approach.

2. Encourage and inspire employees and leaders in essential services to think big about sustainability (eg around the future roles of utility businesses) and strategically embed the changes that are starting to occur throughout their organisations.

3. Develop and test a set of Plain English 'Sustainability Principles' that can be practically understood, applied and adopted by economic decision makers as a key part of a consistent measurement framework for sustainable change.

The project will address some of **the gaps identified in our previous work (the '4 I's'):**

- **Influence** – How companies, regulators and policy makers are influenced by external factors – do they engage with a wide enough range of stakeholders to understand how emerging social and environmental risks and opportunities can become material?
- **Interaction –** How companies, regulators and policy makers interact (both within and between sectors) - in the past, approaches to sustainability have often been siloed and not systematically embedded into core strategic economic decision making, including around roles and responsibilities.
- **Interpretation –** How the law and regulation are interpreted – for thirty years, economic decision making has been narrowly framed and has suffered from both the tragedy of the horizon and tragedy of the commons. It will take time to overcome existing behavioural biases and the power of precedents to get the change in mindsets, culture and attitudes needed for the transformational shift necessary for sustainability.
- **Implementation –** How policy and regulation are implemented in practice – measurement and reporting are starting to change but these need to be accompanied

by new knowledge, skills and processes to enable the fulfilment of the UN Sustainable Development Goals.

Keyword set

Regulation, engagement, governance, disclosure, risks and benefits, fairness, trade-offs, culture, leadership

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