Fair for the Future:

Framing a 'Sustainable Licence to Operate' for the water and energy sectors

Strawman







Why do we need a 'Sustainable Licence to Operate' in the energy and water sectors?

The energy and water sectors are at a major turning point in terms of the politics of both fairness and the environment. The sectors face a number of challenges that must be overcome if companies are to survive and thrive and public interest outcomes are to be delivered.

Most companies are already doing a lot to address these challenges, but progress can sometimes be seen as taking place in isolation in departmental silos, or simply being a compliance reaction to policy and regulatory pressure.

Forward-looking companies need to go above and beyond doing the bare minimum of legal compliance if they are to retain a 'Sustainable Licence to Operate' and demonstrate that they are 'walking the talk' - engaging with stakeholders to better understand, address and meet their changing needs and expectations.

This leaflet summarises the Fair for the Future project **'Strawman framework and issues paper'** that can be found at www.sustainabilityfirst.org.uk.

What is a 'Sustainable Licence to Operate'?

A '**Sustainable Licence to Operate**' is a company's *'on-going endorsement to operate within society and the energy/water system in order to deliver long-term public interest outcomes.'*

Sustainability *first*

Our strawman proposes that a 'Sustainable Licence to Operate' in the energy and water sectors is built on four interconnected pillars:

Pillar 1 | Public purpose, philosophy and public service values

The first pillar we propose is for a company to review and develop its public purpose, philosophy and public service values. This requires the company to first establish whether it has got the 'basics' right and is meeting its statutory and licence conditions. Next is to imagine how it may need to re-interpret its obligations in a disrupted world, with regards to fairness and the environment.

Stakeholders might expect a utility provider to have a strong 'public' purpose if it has significant market power, high and long-term investment requirements, a need for people to play a major and growing role in its work and if it is firmly linked into more complex systems.

Each company needs to develop and take ownership of its values. However, stakeholders may expect these to cover public service values such as accountability, respect and integrity, openness and honesty, objectivity, collaboration, and leadership.

The strawman suggests that companies need to be able to articulate where they stand in this area through a *'Statement of company purpose, philosophy and values.'*

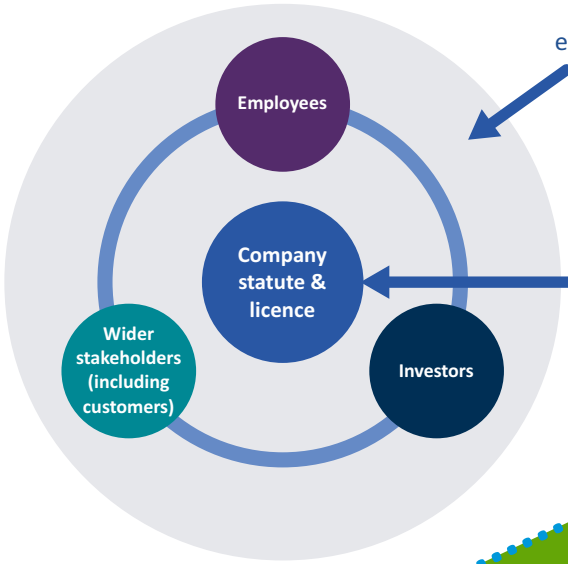
The context in which decisions around public purpose and public service values need to take place in energy and water companies:

Pillar 2 | Making best use of different types of capital

The second proposed pillar for developing a 'Sustainable Licence to Operate' is for a company to make the best use of the different types of 'capital' available to it – e.g. natural, manufactured, intellectual, social, human, financial, data- through appropriate competition and collaboration. All this must be done within the confines of regulatory and competition law.

Until recently, collaborative options have received less attention than competitive options, but both approaches to service delivery have their benefits and limitations.

The strawman proposes that companies develop a *'Decision making framework for thinking about competition and collaboration to make best use of capital.'*



Delivering shared social, environmental, economic and political 'system' value

Getting the 'basics' of service delivery right – all of the time (can't assume this is 'in the bag')

Pillar 3 | Roles and responsibilities

Roles and responsibilities have significant implications for what is considered to be fair and ensuring that vital long-term aspects of fairness, such as environmental interests, are given appropriate weight in decision making.

Adding to the complexity of the context in which energy and water companies operate, is the fact that different stakeholder groups and different nations/localities may have varying perspectives and expectations as to what is considered to be fair.

A corresponding step-change must therefore follow in how all stakeholders are engaged in matters of fairness.

The strawman explores the idea of companies creating *'Compacts for fairness.'*

Pillar 4 | Strategy and narratives

The final proposed pillar in developing a 'Sustainable Licence to Operate' is for a company to develop a strategy and accompanying narrative which sets out an honest and optimistic road-map for itself and its sector.

Focus needs to move beyond reporting data to a narrative that communicates progress, with clear and relevant public interest metrics and outcomes.

Progress needs to be independently verified to provide a coherent view of the company, its culture and where it is going. This will help provide the ability to compare companies and assess collaborative work and wider impacts – including any unintended consequences.

Many companies are already making progress here, but more work is needed to demonstrate how they are contributing to the sector and wider systems (social, environmental, technological etc.) in which they operate.

The strawman proposes that companies develop *'Honest, consistent and comparable reporting for the sector.'*

Companies can't make all these changes alone, and their action in these areas ***does not*** take away the need for policy and regulatory frameworks to be redrawn.

However, corporate leadership is key to successfully shape emerging policy and to ensure that new regulatory arrangements focus on the social and environmental needs of future generations rather than on current or former pre-occupations.

Looking to the future, and beyond the next election, companies will still need to navigate through the seismic changes that are highlighted by the Fair for the Future project. The proposed 'Sustainable Licence to Operate' provides a framework within which to do this.

What is the Fair for the Future project?

The Fair for the Future project aims to enable energy and water companies, policy makers and regulators to better address the politics of fairness and the environment, whilst also getting companies to demonstrate corporate leadership by 'doing the right thing'.

The objectives of this project are to:

- Identify a common framework of good practice and standards;
- Help companies embrace change and disruption more confidently;
- Provide a radical step change in company approaches to engagement, governance and business models; and
- Build a bridge between polarised ideological debates without being partisan.

The Fair for the Future project, which builds on Sustainability First's major New Energy and Water Public Interest Network ('New-Pin') project, is made up of two workstreams:

1. Developing a 'Sustainable Licence to Operate'; and
2. Mapping political and regulatory uncertainty and risk regarding fairness and the environment.

What is the purpose of the 'Sustainable Licence to Operate' strawman?

This leaflet summarises the Fair for the Future project '**Strawman framework and issues paper**' that can be found at www.sustainabilityfirst.org.uk. It is intended to start a debate with stakeholders as well as to 'crowd source' possible solutions to the issues raised.

Testing the 'Sustainable Licence to Operate' strawman

Over the next 18 months we will be testing the strawman with external stakeholders in the following workshops:

- **December 2018** – Public purpose, philosophy and public service values
- **March 2019** – Making the best use of different types of capital
- **June 2019** – Roles and responsibilities
- **November 2019** – Strategy and narratives

If you would like to find out more about these workshops, or for any further information about the Fair for the Future project, please contact **sharon.darcy@sustainabilityfirst.org.uk**.

Visit us
sustainabilityfirst.org.uk

Email us
info@sustainabilityfirst.org.uk

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Write to us
C/o IEEP, 3rd Floor,
11 Belgrave Road,
London, SW1V 1RB

About Sustainability First

Sustainability First is a think tank that promotes practical, sustainable solutions to improve environmental, economic and social well-being. We are a registered charity that primarily works in the electricity, gas, water and waste sectors.

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