Sustainability first **Briefing**

The independent charity and think tank shaping policy, regulatory and company agendas for UK utilities – to deliver social, environmental and economic wellbeing

Fair for the Future: Delivering on fairness and the environment

An agenda for responsible business in UK regulated utilities

Aim: Sustainability First's Fair for the Future Project aims to help regulated utilities better address the politics of fairness and the environment. The project is supported by a range of major UK companies and regulators in the energy, water and communications sectors. This briefing summarises progress made since 2018 – at the project's mid-way point in early 2020.

Context: Why the politics of fairness and the environment are important for regulated utilities

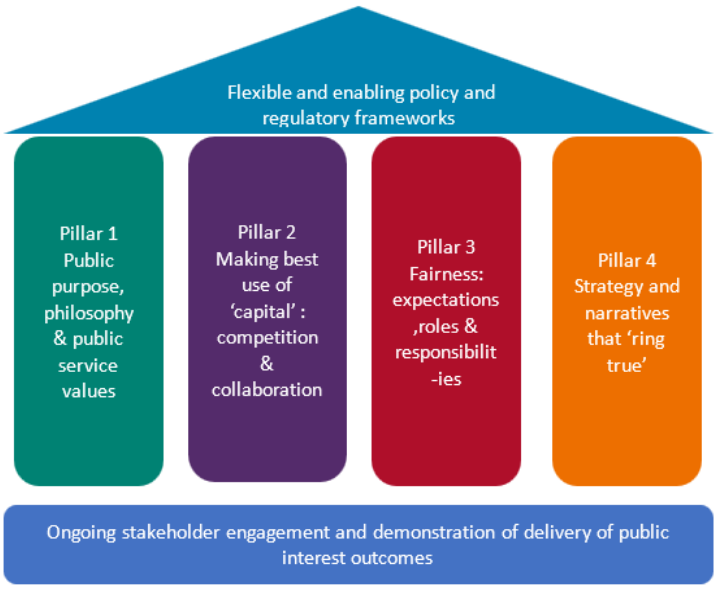
Even before the coronavirus pandemic, regulated utilities were subject to unprecedented disruption due to the pace and scale of interconnected technological, social and environmental changes, including: **commitments to meet net zero by 2050** and how to achieve a fair transition; strategic investment priorities; and **adapting** to climate change and addressing biodiversity issues. Meanwhile, **technologies** like AI, block chain and big data offer new opportunities to enable bottom up and decentralised models of service delivery that help unleash the demand side – whilst changing the architecture of business. The implications of all this for traditionally 'protected' customer groups are unknown. And this is happening in a context of **political polarisation** and, at least before corona, perceived **lack of legitimacy in established decision-making processes**, as well as an increased global interest in responsible business and **'Environmental, Social and Governance' factors** in investment. Together, this calls for the **redesign of regulatory and policy frameworks**, underpinned by strong values and focused on **public interest outcomes**. For companies, the focus on purpose, values and culture becomes even more important in a crisis. This is where a 'Sustainable License to Operate' offers a change making role.

Developing and proving a 'Sustainable Licence to Operate'

A series of 'action research' workshops tested the Fair for the Future project's 'Sustainable License to Operate' (SLO) strawman proposals with key stakeholders.

Stakeholder validation of the proposals – that a SLO is built on four pillars, as indicated in the diagram - reinforced the initial hypothesis that a SLO provides a framework and set of principles for ongoing responsible business practice and outcomes, **built on the firm foundations of ongoing dialogue between a company and their stakeholders.** Our research also reinforces the vital importance of **people, leadership, collaboration, relationships and culture** in delivering positive change. This is central if utilities are to move from their basic focus on infrastructure and supply-side investment to a very different value-set where business drivers are focused on questions of ***how* infrastructure, markets and services are operated *and to whose benefit.*** This shift will be fundamental in a world where the demand side and flexibility must be harnessed to mitigate climate impacts – and to cope with the disruption and resilience challenges of the pandemic and ensuing economic / social impacts.

Fundamentally, getting the basics of service delivery right is essential to gaining a 'Sustainable Licence to Operate' and shouldn't be difficult. However, this needs ongoing attention. Given the radical uncertainty faced, regulatory compliance is essential but not sufficient to 'stay ahead.'



A Four Pillar Approach to achieving a SLO

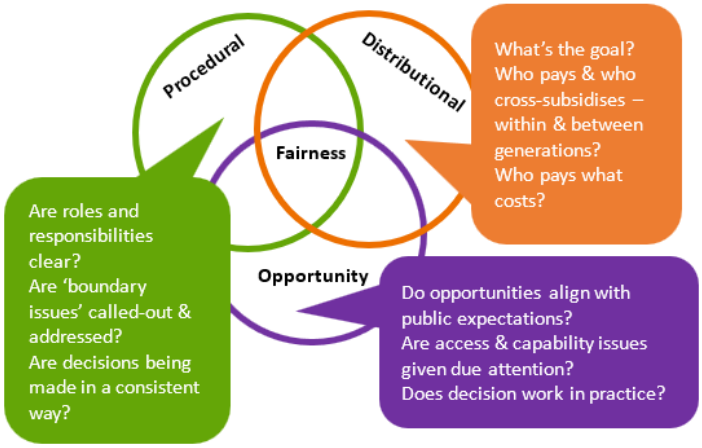
Delivering fairer social and environmental outcomes through a deeper understanding of political uncertainty and regulatory risk.

A risk 'lens' can help in thinking about why and when a SLO is needed. Our research has identified four key **'dynamic risk factors'** that can lead to political uncertainty and regulatory risk: **the consumer/citizen lived experience; climate and the environment; the media; and civil society.** Understanding the totality of risks faced, how they interact and trends/triggers is key.

Four Areas of Good Practice for Companies Developing a SLO

1	**Engineering plus** – Embed purpose, vision and culture to become a safety- *and* values-driven business where all employees are empowered to do the 'right' thing whatever the circumstances. • Accreditations, standards, certifications, etc. – evidence and lock-in positive change.
2	**Break out of the price review cycle** – 'Call-out' when change is needed in policy and regulation and help to redesign frameworks and relationships. • Create safe spaces to discuss difficult strategic and / or distributional issues.
3	**Stakeholder engagement: consumers and communities** – Go beyond compliance to unleash the demand side, open new opportunities and reshape governance. • Address democratic deficits in way that is meaningful to stakeholders, transparently shares risk and reward and gains third party support and endorsement.
4	**Get the right metrics and balanced scorecard in place** – So know what to prioritise and when to partner across full range of resources and so can transparently demonstrate acting responsibly for the company and the system in which it operates. • Aid to forward decision-making and proactive action in delivering social and environmental outcomes.

Research also indicates that companies cannot wait for policymakers and regulators to champion the shift towards responsible business, which will allow them to thrive. Indeed, forward thinking companies are already seeking to understand and tackle these evolving risks. This is crucial to avoiding a prohibitive environment, characterised by; escalation of legitimacy issues and prescriptive regulation focussed on the short term and ad-hoc policy interventions. **A SLO could instead contribute to a permissive environment**, characterised by mitigation, regulation redesigned to facilitate change and clear long-term policy frameworks. However, this first requires a deeper and demonstrable integration of 'fairness' in essential services, extending beyond classical economic fairness, towards a convergence of three points: procedural and distributional fairness, as well as fairness of opportunity. This approach can help shape thinking of how to deliver moral fairness in an essential service.



Elements Contributing to Fairness in Utilities

Identifying what a SLO means for policy and regulation

Companies can only do so much on their own. To address disruption, there is a need for **a re-design of policy and regulatory frameworks**. This should include; a) creating policy frameworks of duties for decision makers to help address conflicts of interest; b) facilitating integrated, circular solutions which break down institutional barriers to efficiency; c) ensuring public confidence in the operation and running of energy, water and comms infrastructures. **Regulation will also need to become more adaptive, flexible and facilitative** to address environmental and social disruptions. This regulatory adaptation entails the use of a pluralistic, principles-based approach. Here **the rewards of using a SLO and being a responsible business are realised in terms of increased legitimacy, access to emerging 'environmental markets' and greater business resilience**, while a prescriptive approach and tough enforcement becomes the reality for poor performers. Facilitating difficult discussions and moving forward in the public interest requires the **creation of depoliticised 'safe spaces'**. A SLO provides a positive framework and assurance mechanism to do this.

Next steps for the Fair for the Future project

In 2020 we will produce: a board pack on risk and uncertainty in the disrupted world; a 'How to guide' for developing a SLO; and a report on how policy and regulation need to change - and the social, environmental and cultural metrics that are needed by companies to provide assurance to their stakeholders that they are behaving responsibly. Last, **talk of corporate purpose is meaningless unless it is put into action 'in anger' in a crisis**. The pandemic, and the **opportunity to build a more sustainable smarter, fairer and greener recovery** on the back of this, are the time when an SLO needs to come into its own.