23nd June 2020

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Dear Secretary of State

Business Secretary's Economic Recovery Roundtables

Sustainability First is a think tank and charity focused on promoting economic, social and environmental wellbeing with a particular focus on the energy, water and comms sectors. We are keen to help shape the economic recovery process. This submission is in response to the BEIS press release of 15th June inviting in-puts into this initiative.[1]

Our response draws on 20 years of deep expertise in the energy transition (including smart systems and flexibility and energy data), public utilities, consumer engagement, purposeful business and regulation (including regulatory price control processes and innovation mechanisms). More details of our work can be found on our website https://www.sustainabilityfirst.org.uk.

The submission also reflects some of the 1,100 entries from university students, young researchers and creatives to our essay and art competitions on the question '**How do we build from the corona crisis to a sustainable future?'** We will shortly publish a virtual book summarising this work.

In our response below we focus on the questions raised on the BEIS website where we consider our expertise adds the most value.

Underpinning our comments are four main themes to guide decision making in the recovery period to ensure that it balances economic with social and environmental goals:

1. Make change tangible and give people a sense of agency - regionalism/localism;
2. Take people with you - deliberation/public engagement;
3. Make change easy and attractive - behaviour change/new positive narratives; and
4. Get better at using existing resources and institutions and innovating and iterating approaches - adaptive policy, regulation and governance.

The Table at the Appendix provides a summary of these themes and maps our policy proposals against each.

[1] https://www.gov.uk/government/news/business-secretary-leads-economic-recovery-roundtables

Green recovery

Q Which areas of infrastructure investment should we prioritise for early action to drive economic recovery and support delivery of net zero and our broader environmental objectives?

- **Big bold kit and orderly strategic investment ahead of need for a sustainable and resilient future:** Investment in hydrogen, CCUS, interconnection, heat networks, new reservoirs, climate adaptation investments (eg flood schemes), 5G Full Fibre Broadband and cyber secure communications networks should be prioritised. Not further investment for car-based road and air travel and other high carbon activities. Tax incentives and structures need to support zero carbon tech investment. Investment needs to have a regional dimension as appropriate and take account of the Citizens Assembly on Climate recommendations.

  Investment in low carbon social housing, and the infrastructure needed to support this, should also play a key part in the recovery package to help ensure recovery is green and fair.

  At the same time as this strategic investment pipeline is being opened, far more detailed policy and practical thinking is needed by BEIS (& Ofgem) on flexibility from electric heat and EVs, including commercial approaches, market developments, tariff approaches, smart inclusion & consumer safeguards. This needs to feed into associated investment programmes but should not hold them up.

Q What action should we take to align investment in the UK and globally with net zero and to protect natural capital?

- **Redefining value and developing balanced sustainability metrics:** In order to maintain focus on net zero and protect natural capital, and achieve a healthy and resilient recovery, at a national level we need to develop new approaches to measure what we value as a society that go beyond GDP. These new 'top down' approaches need to take account of the inter-dependencies between economic, social and environmental outcomes (i.e. the different pillars of sustainability).

  Getting a better grip on the governance/cultural measures that drive decision making is key to understanding how these different outcomes are balanced and whether this is done in a sustainable and 'fair' way that will lead to a 'just transition'.

  More detailed 'bottom up' sustainability metrics also need to be developed by government, regulators and companies and be joined up and published – by company, industry (electricity, gas etc), sector (eg energy) and, where appropriate,

cross sector (cross essential services). Metrics need to be as consistent as possible to enable comparisons between companies and to align with investor metrics.

When private investment is being used to deliver public value, as is the case in public utilities and other essential services, investor metrics (including on ESG and SROI) need to be tailored to the sector and to UK issues, and take account of the needs of the communities in which investors invest.

- **A carbon tax**: Should be introduced to ensure that prices capture the true cost of carbon. Start with a Fuel Duty Escalator in the Autumn Budget and move to removing fossil fuel subsidies and introducing new fossil fuel taxes.

- **Changes in building standards**: For households and businesses to zero carbon and adaptated to climate impacts (eg AC/DC wiring, plug and play low carbon tech as standard, flood proofing, to cope with public health impacts of urban heat and need for cooling etc). Need to link to flexibility (which Future Homes Standard does not) and to need for building innovation (domestic and commercial – including for increased home working).

- **Government stakes and public sector procuremen**t: Ensure that any government stakes in companies have clear net zero (and social/affordability) conditions attached. Use recovery package and government procurement to stimulate supply chains for strategic/cross industry response, local sourcing as appropriate etc.

Q What are the key regulatory barriers weakening incentives to invest in net zero, and how do we address them?

- **Policy frameworks and regulatory duties:** Strategic Policy Statements are needed for each sector, including on trade-offs between consumers and citizens and to ensure regulatory incentives align with carbon budgets. Secretary of State Guidance to Ofgem needs to include balance between devolved & regional targets for net-zero & UK-wide vires.

  Regulators should have net zero duties that align with carbon budgets to be achieved 'at least cost to current *and future consumers and citizens*.' Regulators to have duties to explicitly balance price, quality, resilience & environmental outcomes. Regulatory duties should address legitimacy around bill increases (eg info asymmetries, outperformance sharing & exec pay).

- **Uncertainty**: More sophisticated thinking around handling of uncertainty / stranding in the context of net zero is needed. Government and Ofgem need to clarify: 'risk appetite' on who pays for what (consumer / future consumer) for strategic investment.

Whilst Ofgem's Decarbonisation Action Plan has made a welcome commitment to the adaptive regulation needed to cope with uncertainty, set piece price review processes can work against this. The net zero re-opener is a good step in the right direction but needs to be broader and there needs to be greater clarity of the areas of greatest tech & cost uncertainty.[2]

Principles based regulation, a focus on corporate purpose and on-going deliberative stakeholder engagement are also needed to help tackle uncertainty and to aid regulatory and corporate decision making in a disrupted world. Our major multi-party three-year Fair for the Future project is addressing many of these issues and is applying the thinking on purposeful business specifically to utilities and their regulators.[3]

Regulatory frameworks need to recognise the importance of corporate purpose and culture and how these impact on how risks & rewards of low carbon investment are fairly shared between investors and consumers. Regulation needs to ensure ongoing stakeholder engagement in companies – to challenge delivery & to shape forward plans and act as antennae on regulatory 'gaps'.

- **Short termism:** Price review periods tend to be too long for managing Opex and too short for managing Capex. This can make conversations about investment ahead of need to deliver net zero challenging. Separating price controls from strategic investment competitions can help.

  Focusing on the delivery of long-term public interest goals, such as net zero, can also assist in developing a more strategic approach. Ofgem's Decarbonisation Action Plan is a good move in this direction but it needs milestones over the next 18 months. To keep focus in this area, greater transparency around environmental engagement, advice and evidence in Ofgem decision making – including the new Net Zero Advisory Group & NGO in-put – is needed.

- **Centralisation**: A more decentralised approach is needed if regional and local solutions are to thrive. Plurality is important to recognise the differences between nations and regions in terms of needs and opportunities but also to build resilience through diversity.

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[2] https://www.sustainabilityfirst.org.uk/images/publications/consultations/Sustainability_First_-_RIIO2_-_Ofgem_Open_Letter_-_Net_Zero_Reopener_-_final_-_130520.pdf

[3] We are about to publish a significant amount of work on this project, much of which has been revised in the light of Covid-19. In the meantime, see this project summary https://www.sustainabilityfirst.org.uk/images/publications/fair_for_the_future/SF_F4TF_mid_way_project_rpt_1.1.20_FINAL.pdf and this Briefing on Risk and Uncertainty During the Corona Emergency https://www.sustainabilityfirst.org.uk/images/publications/other/SF_Briefing_paper_template_2_columns_april_2020.pdf

This requires a clear commitment to devolve powers and sufficient funds to devolved, regional and local government for net-zero, levelling-up, rethinking towns and cities for home working/social distancing etc. Local Authorities need a clear financial line of sight to a more decentralised future to incentivise and enable net zero investment (eg a 4 year recovery funding package).

Regulation needs to be reformed to enable utilities and other 'place maker' organisations to evolve as stronger regional players. In energy, the DSO geographic foot-print is a 'public good' which needs regulatory recognition. Clarity on what is monopolistic / contested is needed – but retaining an overview and coordination.

Local leaders should be consulted in the development of price controls and associated company business plans. This is essential for them to be able to develop local/regional energy, water and transport plans. These plans then need to be tested with local stakeholders (eg on flexibility, volumes, efficiency etc) to build legitimacy and to guide decision making under uncertainty.

There needs to be a wider acceptance from central government and regulatory bodies of the need to share learnings from what works and what doesn't at the local and national levels in a timely and honest way.

- **Siloed structures**: More co-operation is need across government departments, and sector specific regulators, to deliver net zero in an efficient and fair way – to send the right signals to investors and to recognise the value of delivering co-benefits. There needs to be a step-change in co-ordination between government departments and regulators in this area, including in the resources and governance of the UKRN, to enable new, resource efficient and circular business models to thrive (eg between energy / comms/ IoT / Transport etc) and to attract the necessary investment to these.

- **The demand side**: Whilst there has been tremendous progress on technical flexibility in energy, policy makers and regulators need to think beyond nudge and use the momentum of new covid behaviours to embed more sustainable consumption and production patterns in the energy sector and beyond through incentivising investment in more radical demand side programmes (efficiency and demand side response) and through: clearer and more ambitious labelling schemes (eg including embedded energy and water usage in product labels); and making teaching of sustainability (not just the 'what' this means but also 'how' to affect change) a mandatory topic in schools etc.

G How can we more effectively support businesses across the economy in acting to access growing low carbon markets and support delivery of net zero? (e.g. innovation support, advice, regulatory barriers)?

Our major Fair for the Future project is addressing these issues (see above).

Q How can we help the UK's carbon intensive sectors to transition to low/zero emissions while maintaining competitiveness?

Again, our major Fair for the Future project is addressing this issue (see above). It has explored the need to get the right balance between competition and collaboration in the delivery of environmental (and social) outcomes. Clarification is needed of main areas where greater collaboration between companies and sectors is desirable – to avoid competition for competition's sake, particularly at regional level for monopolistic activities.

Q What actions should we take to ensure local and regional economies can effectively contribute to the net zero target?

- **Resourcing** – local and regional economies need the resources and a clear financial line of sight (eg four year covid recovery package) in order to fulfil their potential in the decentralised energy landscape. See proposals for a Green New Deal on page 6.

- **Co-ordination** – the work of the low energy hubs and other decentralised energy initiatives need to be clearly co-ordinated so regional and local actors can share best practice in a timely and efficient way.

- **Deliberative public engagement** – this is key to ensure a fair transition and to give people a voice and sense of agency in the move to net zero. The recommendations from local Citizens' Assemblies – including on resourcing - need to be embedded in local energy/water/transport plans and wider local and regional decision making and to be taken account of in national plans.

Increasing opportunity

Q How can government target skills and employment support to best aid economic recovery and drive progression and productivity?

- **Retraining / reskilling for a post covid, net zero and digital / AI world**: Training and reskilling should be targeted at those most adversely impacted by the pandemic, decarbonisation and digitisation. It should have a positive gender and BAME bias to ensure women and people from ethnic communities are able to benefit from, and are not locked out of, the new job opportunities created by the recovery package and associated retrofit programmes, sustainable construction initiatives etc – plus the onshoring of activity post covid and Brexit.

Q What could be the most impactful priority for business and government to work towards in order to level up given the challenges presented by the current context?

- **A 'Green New Deal' for radical, local, cross sector efficiency programmes**: Local/regional energy and water efficiency retrofit programmes, smart electric storage heating installations (and hot water tanks), sustainable drainage and cycle lane schemes. Based on local/regional energy, water and transport plans which are developed and tested with local stakeholders (eg on flexibility, volumes, efficiency etc). As part of this, local leaders need to be consulted in the development of price controls and associated company business plans.

  This should be funded from taxation and rolled out via local authorities and local organisations at a community level to provide training and employment and bring the green economy down from abstract concept to something people have agency in, and experience the benefits of, at the local level.

  It should be targeted at social housing, rented accommodation and public services to deliver wider social and public benefits, including reductions in energy and water poverty. Up front grants / loans to help those on low incomes access support when needed. The 'Green New Deal' needs to be firmly linked into behaviour change programmes. These need to be joined up/cross sector efficiency advice/behaviour change schemes to help ensure environmentally beneficial covid behaviour changes stick and address practical knock-on implementation issues.

  Access to data is crucial to help shape and inform the Green New Deal. The open data principle needs to be followed for energy market facing data, company data and digitisation strategies, data cataloguing and visibility. Data needs to drive energy flexibility markets on a whole sector basis. The ENA needs to drive common and standardised approaches to data formats across all sectors (and vectors where possible) to enable robust regional comparisons. BEIS & Ofgem need to develop a strategic approach on how to make aggregated / anonymised smart meter data available via a trusted processor for public policy purposes – otherwise 'flying blind'. Detailed thinking needed on appropriate routes to the data.

The future of industry

Q What specific actions would enhance the adoption and diffusion of innovation across the full breadth of UK businesses?

R&D spend needs to be co-ordinated and focused on delivering sustainable solutions.

The UK open for business

Q Are there any particular types of investor, project or investment that business and government should prioritise for investment in the UK?

Patient capital and impact investors should be encouraged in sectors that use private capital to deliver public value and are part of critical national infrastructure, deliver essential services and have significant social, environmental and economic impacts.

We hope that this submission is helpful. We would be very keen to be involved in future roundtables and BEIS activity on this topic.

Best wishes

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Appendix

Four themes to guide decision making in the recovery period to ensure a balanced approach to delivering economic, social and environmental outcomes

HOW?	WHAT SHOULD THE RECOVERY PACKAGE ADDRESS?		
	Tackling disadvantage & welfare reform *	**Efficient & effective essential services**	**Investment for resilience**
Make change tangible & give people a sense of agency: Regionalism/ localism	Empower & resource local support networks – particularly those targeted at women and BAME communities Build a bottom up picture of social impacts to highlight where need more strategic change (eg on tax)	A 'Green New Deal' for radical, local, cross sector efficiency programmes Retraining / reskilling for a post covid, net zero and digital / AI world at regional/ local level. Through targeting, can help with levelling-up Share what works – between regions – and where changing national standards would be more efficient	Big bold kit and orderly strategic investment ahead of need for a sustainable future Investors need to understand & act on local requirements Local leaders need resources to develop local energy/water/ transport plans and need to be involved in investment and price control decisions Communicate social & environmental benefits of investments in way that resonates with local stakeholders
Take people with you: Deliberation & public engagement	Involve communities, esp. the hardest hit by covid (eg by geography and demographics) ,to establish what support they need & to explore more radical ideas for change Support inclusive by design approaches	Understand the co-benefits that might be delivered to build support	Government to lead research with public on how we need to redefine value for a healthy & resilient recovery Ongoing public engagement by companies to ensure fair share of risk and reward – vital to build & maintain trust, legitimacy & sustainable licence to operate – and put purpose into action
Make it easy & attractive: Behaviour change & positive narratives	Joined-up support Make better use of data to predict issues & tailor solutions Develop new social indicators that capture changing patterns of disadvantage & local impacts	Build on existing behaviour change, use data to maximise impact of insights & develop logistics to translate initiatives into action Social and environmental metrics measure outcomes on the ground and what works in practice	Carbon tax Change building standards for net zero & climate adaptation Strategic Policy Statements & regulatory duties aligned with carbon budgets Better social, environmental and governance/cultural metrics needed so that investors and other actors can more accurately

	Develop a positive narrative for change – eg essential services fit for front-line heroes and next generation?	Develop a positive narrative for change – eg future fit homes for front-line heroes?	measure and price risks in these areas – including but not limited to climate risks – and understand how these become material – particularly in utilities Positive signals and narratives – including making the link between short and long-term resilience (ie sustainability is a health & safety issue) and how investment can drive delivery of social and environmental outcomes
Use what you've got & iterate & innovate: Adaptive policy, regulation & governance	Use and support existing local institutions and structures – don't always have to reinvent the wheel / bring in outside delivery partners Share good practice & lessons from innovation failures in a timely way (applies in each column)	Policy makers & regulators to pay greater attention to delivery of outcomes Focus on governance around delivery of co-benefits vital Incentivise 'service based' business models	Ensure public procurement builds resilience Use flex in current policy & reg. – there's more than you might think! (eg principles based regulation, focus on corporate purpose, net zero re-openers) Better understand the counter-factual – what a disorderly transition might look like Boards of regulated entites to be diverse, & include someone responsible for Net Zero

*Sustainability First will be undertaking further work to ensure that in the light of the pandemic, welfare reform is aligned with medium to longer-term goals such as delivering net zero.[4]

[4] See https://www.sustainabilityfirst.org.uk/images/publications/bridging_corona/Consumer_Vulnerability_Ensuring_Affordability_Final_150520.pdf