BEIS Committee – Post-pandemic economic growth inquiry

Sustainability First evidence

Sustainability First is an independent think tank and charity focused on promoting economic, social and environmental wellbeing in public utilities.

Our response draws on 20 years of deep expertise in consumer issues (engagement, vulnerability, data, behaviour change etc), policy and regulation (innovation, price controls, incentive frameworks etc) and business leadership and practice (governance, infrastructure investment etc).

Sustainability First has extensive experience of convening stakeholders in major multi-party projects to help shape agendas and embed change. For example, we are currently leading a group of 12 utility companies in our ground-breaking 'Fair for the Future' Project which is examining issues such as: sustainability metrics; the 'purpose' agenda and regulated businesses; risk and opportunity in the disrupted world; and adaptive policy and regulation.[1] Previous projects have included work on resilience, trust and confidence and the long-term public interest in energy and water.[2]

Sustainability First is also a member of Ofgem's Challenge Group for the RIIO2 price controls and its Director and Associates have extensive personal experience in the energy transition, net zero, policy and regulation and consumer protection.

This submission draws on this background but also reflects some of the over 1,200 entries that we received in our recent Essay and Art Competitions on the question '**How do we build from the corona crisis towards a sustainable future?'** These entries from university students, early stage researchers and artists provide compelling visions as to how to enact change when dealing with radical uncertainty. They demonstrate a powerful sense of urgency, hope and expectation that the pandemic is used to 'build back better.'[3] Next week we will publish a virtual book summarising this work.

We are submitting evidence to the Inquiry as we consider our expertise in sustainability and utilities, and the wider 'crowd-sourced' ideas from our recent competitions, provide important insights into how to ensure the recovery from the pandemic is as resilient as possible.

[1] https://www.sustainabilityfirst.org.uk/images/publications/fair_for_the_future/SF_F4TF_Mid-Way_Briefing_April_2020.pdf
[2] https://www.sustainabilityfirst.org.uk/images/publications/new-pin/New-Pin%20Looking%20to%20the%20long%20term%20FINAL%20report.pdf
[3] https://www.sustainabilityfirst.org.uk/bridging-corona/essay-art-prizes

Q - What core/guiding principles should the Government adopt/prioritise in its recovery package, and why?

- **Equality** –The pandemic has exacerbated many existing inequalities and has created new ones. We have 'all been in the same storm but in different boats.' Many people and businesses are experiencing severe hardship. Putting social justice – within and between generations - at the heart of the recovery package is not only morally the right thing to do but can also help build social cohesion in what could be a difficult recovery period. A focus on regional equality and local approaches to recovery, including reskilling and infrastructure investment programmes, can make the recovery package tangible and give people and communities a sense of agency in their own futures.

- **A balanced approach** – To be sustainable, the recovery package needs to balance delivering economic objectives with delivering social and environmental objectives. Focusing only on economic growth can undermine the complex social and environmental systems on which businesses and employees, and indeed citizens and nature, depend.

- **Alignment of short and long-term goals** – In the early days of lock-down, the focus was understandably on short term solutions. Wherever possible, the recovery package now needs to align short and long-term goals. This is important to maximise efficiency, minimise disruption and ensure consistent signalling (to consumers and investors) on the direction of travel in a complex and dynamic environment. Absent this approach, the recovery may be unnecessarily costly. This could reduce our resilience to future pandemics and other systemic threats such as climate change and biodiversity loss.

- **Adaptability** – Given the extent of uncertainty that still remains (a second wave, local lockdowns, wider global impacts etc) it is important that the recovery package is flexible enough to be able to adapt to changing circumstances. Where possible, the recovery stimulus needs to build on existing resources and institutions and focus on innovating and iterating approaches.

- **Bold Government leadership** – the economic impacts of the pandemic are such that bold Government leadership is crucial to act at the pace and scale needed, to build confidence and to facilitate a more resilient future. Difficult choices need to be made around investment and taxation that cannot be kicked into the long grass any longer. To avoid lurching from one crisis to the next, the forthcoming National Infrastructure Strategy and Energy White Paper need to provide a strategic approach to Net Zero. Without this policy clarity, adaptive policy and regulation could be left 'high and dry' in terms of its ability to fill the gaps in the carbon budgets. Government needs to provide a strong positive narrative which sets out the future view and which these strategies and policies can then align with.

- **Honesty and openness** – No one – government, business or the public – has *all* the answers or skills to ensure a successful recovery. An honest conversation is essential to identify the approaches and partnerships needed. Progress is also unlikely to be linear. In the recovery process, it will be vital to quickly understand what works and what

doesn't so that we can 'fail fast,' learn the lessons and make the necessary adjustments. Being open about this, and any trade-offs that will need to be made, will be important so that people and businesses understand what is happening and the role that they can play in the recovery. The principles of honesty and openness, which are key to the Standards in Public Life[4], are essential to get the leadership, culture, behaviours and innovation that we need for recovery, and, just as crucially, to build trust in Government and institutions going forward.

- **Meaningful public engagement** – Participatory engagement is needed to find out what sort of recovery people want to see and what they view as 'fair'. Public engagement at the local level needs to be brought together with national engagement initiatives in a new 'social contract' for the future.

- **Opportunistic –** We currently have record low levels of interest. The recovery package should take advantage of this to invest in the infrastructure and net zero proof / climate ready homes and buildings for the future. The recovery package should also build on some of the direct opportunities arising from the pandemic, such as the shift to remote working, where these deliver overall social, environmental and economic benefits.

Q - How can the Government borrow and/or invest to help the UK deliver on these principles?

In essential services, many existing social and environmental costs are paid for through bills. These frequently contain significant cross-subsidies between different groups of consumers. In the context of Covid and Net Zero, cross subsidies in bills have in many ways reached their limits.

To deliver on the principles above, taxes will need to go up. Significant tax and welfare reform are needed. These are 'wicked issues' that for too long have been avoided. There are no easy answers and there are pros and cons on all sides. To navigate through this minefield, we propose that a fully representative Citizens Assembly is set up to understand what the different options are and make proposals as to the best way forward. This can be informed by representative local engagement activity so that the Assembly's proposals build on the views of all the nations and regions. This is part of the process of forging a new 'social contract' for the future.

In terms of the type of capital that the government may seek to attract to help fund the recovery, we consider that 'patient' capital and impact investors should be encouraged in sectors like utilities - 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. The growing interest in 'Environmental, Social and Governance' ('ESG') factors in the investment community needs to be tapped into and encouraged as part of wider recovery investment.

[4] https://www.gov.uk/government/publications/the-7-principles-of-public-life/the-7-principles-of-public-life--2

Q - What measures and support will businesses need to rebuild consumer confidence and stimulate growth that is sustainable, both economically and environmentally?

Adaptive regulation (uncertainty mechanisms, net zero re-openers, strategic innovation funds etc) is important in such an uncertain environment. However, this has to be strategically aligned with the delivery of wider goals, such as net zero and climate adaptation. Policy clarity in terms of the forthcoming National Infrastructure Strategy and Energy White Paper etc is vital in this context. Without this, adaptive regulation risks being piece meal, complex (and thus open to gaming) and bureaucratic - potentially delaying key decisions (eg around the future of heat, hydrogen, CCS etc), pushing up costs and reducing optionality. The recovery package is coming at a crucial time for the energy transition when Ofgem is having to make some major decisions about energy networks. This issue is absolutely germane to the 'RIIO2' decisions that are being made now.[5]

Ensuring regulation is focused on outcomes – not process – can help here. Regulators need to incentivise the culture and behaviours that deliver a balanced approach to social, environmental and economic outcomes. However, given that regulation and policy often lag experience on the ground and evolving scientific understanding (on covid but also on climate, biodiversity loss etc), where a company genuinely puts social / environmental objectives at the heart of its corporate purpose and business plans, that should also be acknowledged, encouraged and incentivised by regulatory frameworks.

Q - Whether the government should give a higher priority to environmental goals in future support?

We consider that the recovery package, any future government stakes in business as a result of the pandemic and ongoing public sector procurement should have clear environmental and net zero conditions attached, but these need to be balanced with social goals. Although there are some trade-offs here, there are also many win-wins given the size of the multiplier effect from green interventions and the co-benefits that these can deliver.

Government interventions should be used to build net zero proof infrastructure, create green jobs, stimulate supply chains for strategic/cross industry response, encourage local sourcing as appropriate etc.

Q - Whether the Government should prioritise certain sectors within its recovery package, and if so, what criteria should it use when making such decisions? What conditions should it attach to future support?

We consider that the Government prioritise four broad areas for investment:

1. **Big, bold, green and smart infrastructure / technology** - Investment in hydrogen, CCUS, interconnection, heat networks, 5G Full Fibre Broadband and cyber secure

[5] https://www.sustainabilityfirst.org.uk/images/publications/other/Sustainability_First_Statement_on_RIIO2_DD_for_T2_GD2__ESO_v13.7.20_sd.pdf

communications networks etc. Not further investment for car-based road and air travel etc.

2. **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, cycle lane schemes etc.
3. **Climate adaptation investments** (eg flood schemes, new reservoirs, urban heat proofing etc).
4. **Building new net zero and climate proof social housing**: To help ensure recovery is also fair.

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.

Q - How can the Government best retain key skills and reskill and upskill the UK workforce to support the recovery and sustainable growth?

The recovery package needs to make a sustained commitment (beyond the one-year energy efficiency programme recently announced by the Chancellor) to reskilling for a post covid, net zero and digital / AI world. Training should be targeted at those most adversely impacted by the pandemic. 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 plus the onshoring of activity post covid and Brexit.

Q - Is the Industrial Strategy still a relevant and appropriate vehicle through which to deliver post pandemic growth?

The Industrial Strategy doesn't place sufficient emphasis on resilience (particularly to systemic risks and opportunities). By focusing on an aging society, it does not reflect wider inequalities that have been caused / exacerbated by the pandemic. In this way it could have negative inter-generational impacts.

Q - How should regional and local government in England, (including the role of powerhouses, LEPs and growth hubs, mayoralties, and councils) be reformed and better equipped to deliver growth locally?

Regional and local government needs to play a major role in delivering the radical, local, cross sector efficiency programmes identified above and in facilitating community energy schemes. It needs to co-develop local/regional energy, water and transport plans with local stakeholders (eg on flexibility, volumes, efficiency, network price controls etc).

Regional and local government needs a clear financial line of sight (eg a four-year covid funding recovery package) to provide training and employment and bring the green economy down from an abstract concept to something people have agency in, and experience the benefits of, at the local level.

Local interventions 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 need to be targeted at helping those on low incomes and support should be firmly linked into joined up/cross sector efficiency advice/behaviour change schemes to help ensure environmentally beneficial covid behaviour changes stick. They should address practical knock-on implementation issues.

Access to data is crucial to help shape interventions. 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. BEIS and 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 local authorities, mayors etc are 'flying blind'.[6]

More attention is needed to share what works – between regions – and to understand where changing national standards (eg building standards) would be more efficient. Local/regional actors need to be helped to work more closely with investors so that they can understand and act on local requirements.

Q - What opportunities does this provide to reset the economy to drive progress on broader Government priorities, including (but not limited to) Net Zero, the UK outside of the EU and the 'levelling up' agenda? What should the Government do to ensure that delivering on these priorities does not exacerbate the vulnerability of businesses, consumers and communities/workers that have been impacted by COVID-19?

The recovery package needs to build on the positive sustainable behaviour changes seen in the pandemic (eg reduced pollution through reduced commuting, home working etc). However, impact assessments are needed to fully understand how these changes affect issues of equality and inclusion (eg in working families, overcrowded accommodation etc).

New definitions of value, that move beyond a focus on GDP to also account for wider social, environmental and economic wellbeing, along with public health, are needed so that the government can ensure it is delivering on its priorities. There was a lot of activity in this space, including with the investor community on 'ESG' factors, before the pandemic hit. Sustainability First will shortly publish a paper on sustainability metrics which provides a guide to different reporting frameworks and sets out a check list for public utilities to use to measure their progress in terms of delivering sustainable outcomes.

Q - What lessons should the Government learn from the pandemic about actions required to improve the UK's resilience to future external shocks?

1. **High impact low probability risks** - like covid, climate change and biodiversity loss are real and exponentially expensive when they occur. They are asymmetric and have long-fat tails. In the case of climate risk, this can be irreversible. Adopting the precautionary principle is essential.

[6] https://www.smartenergydatapiag.org.uk

2. **Social and environmental risks** - are frequently systemic, complex, dynamic and interconnected. They often cluster and move in non-linear ways. This can make them difficult to predict and control. Understanding what drives them and the underlying trends – rather than focusing on compliance to existing policy and regulation – is key. Scenario analysis, sensitivity testing etc are needed in these areas to understand how they become material – both to the economy and wider well-being.[7]
3. **Flexible and joined-up policy and regulatory frameworks** - are needed to deal with complexity and uncertainty. These need to be framed by an overarching government narrative around desired outcomes. 'Siloed' institutional arrangements can make this challenging. More co-operation is need across government departments, and sector specific regulators, to deliver a resilient recovery – 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 UK Regulators Network (UKRN), to enable new, resilient and circular business models to thrive (eg between energy / comms/ IoT / Transport etc) and to attract the necessary investment.
4. **Diversity** – of views, skills, characteristics and backgrounds, is essential to build resilience[8]. This is critical, at all levels of decision making from the cabinet down, to provide constructive challenge and to avoid group think – and to build trust in decision making and institutions as we come out of the crisis.

Q – What role might Government play as a shareholder or investor in businesses post-pandemic and how this should be governed, actioned and held to account?

Sustainability First's Fair for the Future project has been testing how utility companies can develop a 'Sustainable licence to operate' and embed their purpose in their ongoing work. This provides a useful framework for the role that the Government may play as shareholder/investor in terms of delivering public value.[9]

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[7] In the autumn we will publish a board pack on 'How do purposeful regulated utilities better respond to risk and opportunity in a disrupted world' as part of our Fair for the Future project.
[8] https://www.gov.uk/government/speeches/the-privilege-of-public-service-given-as-the-ditchley-annual-lecture
[9] We will shortly be publishing a 'How to' guide on this topic which contains extensive case studies from within and outside public utilities – including on their response to Covid.