

Fair for the Future Project:
Sustainability Metrics in Public Utilities

Sustainability First Discussion Paper
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Sustainability first

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Executive summary

Measurement and reporting ('metrics') of a companies' environmental and social footprint are essential tools in creating and leading purposive utility companies that have a sustainable licence to operate. They enable boards and executive directors to assess the starting position in formulating strategy/business plans. And they then help these groups along with staff, investors (who are leading some of the pressure and thinking on wider metrics), regulators, customer groups and other stakeholders - to judge progress against agreed targets and wider purposive aspirations, as well as statutory and regulatory requirements. Identifying the right metrics is important in all businesses but vital in private companies that deliver public value to maintain legitimacy and enable accountability to be meaningfully exercised.

Business analysis has traditionally focused on financial and economic metrics (and often short- term financial results). There is a growing realisation that this is not always a good or sufficient indicator of long-term performance, organisational resilience and the delivery of wider public value. Covid-19 has brought some of these points into sharp-relief.

The case for creating a purposive company, and identifying the right metrics to track progress on this, has strengthened with the decline in trust in businesses such as utilities, wider moves towards 'responsible capitalism' and the increase in disruption which the modern world now sees. Energy utilities are perhaps in the spotlight here for their role not only in terms of decarbonising their own activities but also in facilitating the transition to a low carbon economy. And the water regulator has stressed purpose as central for water companies.

In particular, there is now an increasing focus on Environmental, Social and Governance ('ESG') metrics:

- Environmental - net zero has heavily upped the ante. Economic regulator methodologies have definitely tilted in this direction – in some cases under concerted stakeholder pressure. Whilst continuing focus on carbon is crucial to achieve net zero, we would note that in utilities (particularly but not exclusively the water sector) a much wider environmental focus is also needed.
- Social - social metrics can in current usage vary from basic human rights measures to genuine attempts to think about vulnerability and affordability outcomes. But all the sources we talk to tell us that there is a deficit in advice and no agreement as to the best metrics to use, which appears to go beyond any disagreement as to the appropriate role of utilities in this area. The qualitative nature of some social issues, and the difference in values between geographies, has made it challenging to develop these. This is a real issue for public utilities that deliver essential services and deal with customers that may be in vulnerable situations.
- Governance - Section 172 of the 2006 Companies Act (which addresses governance issues such as long-term decision making, consideration of the impact of company operations on communities and the environment and corporate conduct), was strengthened by new reporting requirements in 2018. In monopoly utilities or those which provide a 'public platform' service, strong governance and stakeholder engagement are key to maintain trust and confidence; regulators and politicians are increasingly focusing on this.

We would argue that ESG metrics - in particular under governance - need to be complemented with measures around culture change. These are often disregarded as being in the 'too difficult box' but are important to ensure that approaches to sustainability are embedded in a business and to judge the cultural transformation towards a purposeful company. Whilst there is much that utilities can learn from cultural metrics in other sectors, in particular how these can best be developed outside of quantitative disciplines such as engineering and accountancy, there are also some specific cultural factors that need to be taken into account when delivering an essential utility service on an ongoing basis.

Developing a 'balanced scorecard' of sustainability metrics - ESG factors, cultural measurements and short and longer-term finance and economic metrics - is

fundamental to understanding the resilience of a business. In this paper we take it as read that although financial metrics are central to sustainability in the round, companies need no guidance here. Properly defined sustainability metrics enable informed decisions around the trade-offs that inevitably need to be made in long term utility businesses. They can evidence concepts such as the triple bottom line, but also that some environmental and social outcomes can entail cost/cross subsidy for consumers. Building understanding in this area can help ensure public acceptability of the low carbon transition, climate adaptation and the navigation of complex social change.

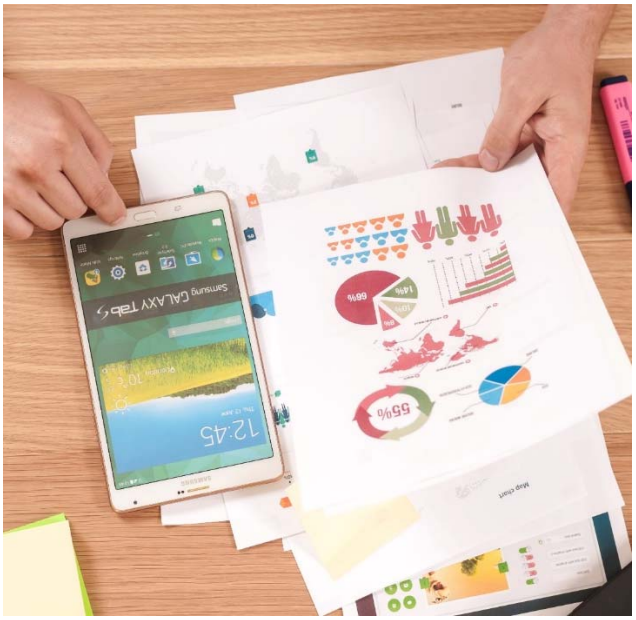
Metrics alone, however, are not enough. Interpretation/ commentaries (particularly of trends and drivers for change), scenarios, and ranges are all important additions to a sustainability metrics suite which focuses on specific numbers or Red, Amber Green (RAG) ratings. These additional sources of insight are vital to help business leaders move from navigating solely 'by the dials' to also keeping a clear focus on the company's overall direction of travel.

There is currently a plethora of metrics. This is led by demand from investors for improved corporate reporting with over 120 organisations carrying out impact measurements. ESG reporting suites for investors are not always consistent, which makes aggregating information and comparing performance challenging. Furthermore, infrastructure investors with major stakes in a number of companies understandably seek a measure of consistency across their portfolios, which can make designing metrics which work for any one company particularly challenging.

Although there is some consolidation in terms of the methodologies and frameworks being used, this is being driven by a strong net zero focus which runs the risk of missing out some of the wider environmental, social, governance and cultural issues that are important in public utilities. And if sustainability metrics continue to come with a cost prohibitive price tag so that they are inaccessible to public commentators, they will not necessarily address the trust and legitimacy issues that have eroded confidence in the utility sectors. Consultancies 'selling purpose measurement' do not necessarily help to address concerns around fairness in terms of how risk and reward are shared (within and between generations).

This Discussion Paper analyses the metrics which are available to a utility company seeking to move towards a more sustainable licence to operate/public purpose. There is no single prescription for what a utility company should do: so much depends on the sector they are in and how far they have already come on their purposive journey. The paper provides a checklist to help companies consider what is appropriate in their circumstances. It then:

- Analyses why sustainability metrics are an issue for utilities and tracks the various sources of increasing pressure for such metrics;
- Looks in some detail at the potential coverage of environmental and social metrics, and then at governance and, within governance, cultural metrics. This is particularly important – as mentioned above - given the lack of an agreed approach to social issues and the fact that some ESG reporting hardly considers cultural factors at all – despite their centrality to public purpose;
- Discusses a number of important design issues;
- Stresses that metrics alone will not suffice, and identifies a number of potential complements when metrics are presented (e.g. to the Board of a utility);
- Describes a number of the important external frameworks and 'offers'
- Offers a few thoughts about how to achieve consistent underlying data.



Sustainability metrics: A Sustainability First checklist for public utility companies

This checklist is designed to help the executive teams of utility companies that use private capital to deliver public value to think about the metrics that they use to track and demonstrate their progress as a purposive regulated business. There are few right or wrong answers.

Overarching questions

- [ ] 1. What metrics do we use to measure our sustainability and resilience as a business?
- [ ] 2. Is there a clear line of sight from our strategy/sub strategies to these metrics? How do our metrics enable us to judge whether we are approaching major decisions/wicked issues and trade offs within a purposive culture?
- [ ] 3. Do we co-invent our metrics with our stakeholders where this is appropriate (eg where they have expertise, direct experience, an on-going interest in our work as bill payers etc)?
- [ ] 4. Is there a single lead for sustainability measurement and reporting? Who owns the suite of sustainability metrics? (If a company splits responsibility, or nests it in regulatory or public affairs, it can risk marginalising the issue, or placing it as one of comms or regulatory gaming.)
- [ ] 5. How are our metrics validated – internally and externally? How important is independent validation of certain metrics by stakeholders?
- [ ] 6. Do our metrics enable comparability across our sector and sector wide reporting where necessary (e.g. on Carbon emissions, Water UK's public interest commitment)?
- [ ] 7. Do our process metrics have a clear relationship to the outcomes we are trying to achieve? Are we conscious of the danger of over- relying on process?
- [ ] 8. Where possible, have we identified leading metrics that can provide a longer-term view? Do our metrics focus attention on emerging trends and what is changing? Do we understand the dynamics behind metrics such as customer satisfaction where there may be a substantial lag between our making changes and this feeding through into changes in the metric?
- [ ] 9. What are we not measuring/can we not measure? How are we ensuring that ease of measurement doesn't lead us to look at the wrong things/ignore important issues?

Specific metrics

- [ ] 10. Are we paying enough attention to non-carbon environment metrics?
- [ ] 11. Are our social metrics sufficiently wide, and have we defined them for the company and our customers and communities rather than slavishly following ESG products?
- [ ] 12. Following covid, do our social metrics pay enough attention to public health and well-being?
- [ ] 13. Do we have enough (any?) cultural metrics? Can we track the changes in behaviours which we as a purposive regulated utility company are seeking to achieve?
- [ ] 14. Have we thought enough about supply chain metrics?

Communication

- [ ] 15. Do we understand the audiences for our different metrics?
- [ ] 16. Are our internal and external metrics consistent and if not, why not?
- [ ] 17. How transparent are we in terms of our metrics: is there a very good reason (commercial confidentiality, data protection) not to publish all our metrics, including internal ones?
- [ ] 18. How do we complement our metrics with proper narrative and analysis? How do we use metrics, along with scenarios and ranges, in framing and delivering our board discussions?
- [ ] 19. Do we have a balanced scorecard which demonstrates the links between our social, environmental and financial metrics and measures around governance and culture?
- [ ] 20. Having looked at our metrics in the totality, are we telling an authentic story of our purpose? Are we underselling our commitment and achievement and are we avoiding spin?

Why metrics are an issue for utilities and increasing pressures for sustainability metrics

To a certain extent the case for metrics does not need to be made. No utility company, or any other company for that matter, can operate without having to compile annual accounts, report against regulatory requirements, present its impacts to stakeholders – including most importantly customers - and understand how the company is performing. The days of running a utility company – or again most other companies - by a single bottom line have long gone – if ever they existed.

In a disrupted world, against recent developments including political risks which impact on utilities, and with investors[1] increasingly interested in ESG performance, the case has grown rapidly.

In this context, we can readily identify the following areas where sustainability metrics – and in particular those on environmental and social performance - are needed in the modern utility:

- Regulatory: Just about all regulated utilities have key compliance conditions they have to demonstrate they are meeting, including from licence conditions and environment and health and safety regulators. For monopoly regulated companies there is also what at least has elements of an increasingly three-way process with stakeholders and the economic regulator - agreeing key performance commitments, with associated penalty and sometimes reward as part of the price setting cycle. If regulators are to accept that companies have genuinely adopted a public purpose and are willing to reward them/give such companies greater discretion, they will need to see clear evidence, ideally with third party audit, of environmental and social outputs. As they look at whether decisions around business plans etc are fair, they should also be interested in governance and cultural metrics which can help highlight how decisions around risk and reward are made.
- Annual reports/accounts and investor material: Even before the 2018 regulations making reporting against all elements of section 172 of the Companies Act came in, most companies would include data on environmental and community impacts at least in their annual reports. They now have to. Investors scrutinise this material increasingly closely, particularly on the carbon side, and many require dedicated returns alongside annual accounts.
- National/international commitments: Data from companies feeds into government reports against their international commitments – for example on carbon reduction and on the UN SDGs. National authorities such as the NAO, the Committee on Climate Change (CCC) and the Office of National Statistics also compile data. The requirements for such data are usually set nationally.
- Industry/sector: Such data is also compiled by sector: either for national statistics or for the purposes of the sector themselves – for example reports of performance against the Water UK Public Interest Commitments,[2] and in analysing trends around security of supply.
- Baselining a wide range of issues as part of preparing for high level strategy and/or business plan: a number of utility companies have found it helpful, sometimes under steers from the regulator, to start their draft business planning process, so far as it relates to environmental and social issues, with compiling data to enable a baselining of their current impacts. This has also been sensibly adopted by a number of companies as the starting point for board and executive discussions about corporate strategy.
- Board/executive director management information: boards and EDs need regular and consistent information with which to run the company at a high level: assuring progress to key commitments and milestones, progress of any key risks, and

[1] The term investor can be misleadingly broad. Some debt investors appear to have less interest in much more than basic sustainability, although there is some growth of explicit ESG linked products. Investors in traded companies may simply be 'buying the index', but some equity analysts and holders of larger stakes/institutional funds are genuinely engaged. Majority or substantial minority private equity owners often have strong views and a number are actively pushing for long term purpose which matches the long-term nature of their liabilities.

[2] https://www.water.org.uk/publication/public-interest-commitment/

delivery of strategic aims. These in turn, and often through a balanced scorecard, will inform resource allocation decisions. Increasingly investment committees will also be looking for sustainability footprint information as part of business cases. Majority or strong minority investors on boards may have specific requirements.

- Operational: more detailed metrics and information are required to make day to day operational and investment decisions. Some of this information may be compiled by or within business units and increasingly will be compiled automatically through telemetry and data interrogation.
- Communications/stakeholder engagement: often the first thing some companies think about: how can we get good stories out to stakeholders, media, consumers? Companies do of course have much to be proud of, and we can certainly identify a number of companies who are strangely reluctant to claim credit for things they should be legitimately do. But we would stress also the need for 'authenticity' as opposed to spin and also the case for transparency: establishing commitments to publish particular data series and sticking to it, even when the story may not be quite so positive. These latter factors are crucial to build long term trust and acceptance of the company's legitimacy – and to build the relationships which can lead to genuine co-invention and collaboration.
- Audit/due diligence: a number of companies are looking for some external assurance of their commitments. Perhaps more importantly at present, major prospective equity investors are increasingly looking to conduct quite sophisticated sustainability due diligence as part of investment decisions, and some new debt instruments are formally linked to auditable sustainability performance.
- Risk: Our conversations with company secretaries and with CEOs and board members reveal that many companies monitor sustainability performance as part of their suite of measures looking at key risks, in particular strategic risks.
- Remuneration: Increasingly companies are linking executive and employee remuneration to sustainability metrics.

One point we would make is that a lot of the existing suites of metrics are aimed at a subset of these requirements, most notably investors and annual reports and accounts. We offer an alternative analysis based on the audience for metrics, as Annex 1.

The growth in metrics covering at least some of the above areas over the last few years is testament to the increasing importance of sustainability metrics both specific to utilities given their public service role and more widely in the corporate world. Some of the main (and partly interrelated) drivers have been:

1) The climate crisis: The net zero and climate emergency movements, and the move by financial services companies, and their regulators in particular, to require consistent reporting against climate impacts. This has led to The Task Force on Climate Related Financial Disclosures (TCFD) metrics reported and defined on page 24.
2) Customer expectations: Increasing customer expectations around and willingness to pay for environmental outcomes (particularly amongst younger consumers) directly in regulated monopolies. There is also a demand from a segment of customers for sustainable offers in contested markets. The extent to which this 'sticks' post Covid and potential increase in deprivation/recession is yet to be fully tested.
3) Vulnerability: There is a growing demand from customers and regulators for switching to be sensitive to customers in vulnerable situations and those excluded (by for example limited access to digital offers) and for monopoly services to meet the needs of people in vulnerable situations. This driver is clearly being exacerbated by Covid-19.
4) Employees: Increasingly sustainability is a key factor in recruitment and retention of younger employees. Some utility companies have long positive track records in this space.
5) Regulation: Regulators have been increasingly adopting sustainability as an important focus, including in the Ofwat strategy – which explicitly references public purpose – and the Ofgem RIIO2 methodology and net zero statement.
6) Changes to company law: Although section 172 of the Companies Act became legislation in 2006, the 2018 regulations requiring publication of annual information about inter alia, the environmental and community provisions, have in the UK led to material on performance in these areas featuring in all major company annual accounts from 2019-20.

The relevant provisions of the Act, and a link to the guidance on the regulations, are included as Annex 2.

7) Investors: Increasing investor pressure, notably but not exclusively from the long term UK, Canada, Australian and European infrastructure funds which typically focus on UK utilities ownership. This in turn reflects both a perception of the changing long term risks and opportunities associated with sustainability but also in some cases pressure from the current and future pensioners who they serve. International work by the World Economic Forum and the international accountancy profession, in part influenced by investor demand, has led to the development of sustainability metrics, often seeking to create something linked to but more practical than the 17 goals, 169 targets and 232 indicators which comprise the UN SDGs.

8) Corporate purpose: The international movement towards the 'modern capitalism' agenda – and the concept of corporate purpose – and how this needs to be reflected in regulated companies. The British Academy's recent work in this area identified the following 'Regulation' principle for purposeful business '*Regulation should expect particularly high standards of engagement, loyalty and care to public interests on the part of directors of companies which perform important public functions.*'[3] To put this principle into effect, public utilities and other regulated companies will be considering how their sustainability metrics measure their standards of 'engagement, loyalty and care.'

'At present corporate measurement systems and in particular corporate accounts relate predominantly to financial and material assets. In contrast, companies are increasingly dependent on and affect other parties, which are external to the firm. There is therefore a growing mismatch between what companies manage and what they measure. This is undermining the quality of information that management, investors, regulators, policymakers and stakeholders have available to them and leading to a misallocation of resources between what is conventionally measured and what is needed.

The last few years have witnessed a proliferation of providers of information on the non-financial performance of firms. There is considerable confusion, inconsistency and cost associated with the variety of information being produced. This reflects a lack of clarity about precise questions the information provided is supposed to answer. There is a need for greater consensus, data assurance and standardisation of available information.

In addition, the board of a company should determine the firm-specific metrics against which fulfilment of purposes beyond minimum legal and regulatory standards can be evaluated. These metrics should translate into key performance indicators that drive behaviour in different parts of a business, and employees should be evaluated, rewarded and promoted against the fulfilment of them.'

The Future of the Corporation (British Academy)

[3] The British Academy, Principles for Purposeful Business, 2019

Environmental, Social and Governance / cultural metrics in public utilities

Although much of the talk is currently about 'ESG' metrics, in terms of sustainability we could perhaps more usefully distinguish between environmental and social metrics (**outcomes**) and governance and cultural metrics (as the key **enablers** for more sustainable outcomes).

It is clear from looking at the various ESG offers that there is no unique definition of what sits in each category. For example, staff metrics can appear in either social or governance categories, as can issues such as fair tax – we include the former in social and the latter in the cultural aspect of governance.

There also appears to be a difference between American approaches and European, with American approaches being less ambitious, notably on social issues.

What follows is our assessment of the considerations which public utilities might wish to consider in each category. These therefore exclude some issues such as animal welfare which are important in many ESG analyses but which seem less relevant to utilities, and while it includes others such as anticorruption measures we would not expect these to be as important for a domestically focused UK utility as for a company whose business model is based around exports to countries which are less well placed in international corruption indexes. It also adds a number of considerations which may not yet be found in many of the marketed ESG products – most notably on social issues and in adding cultural metrics to the governance category. This latter point is central to the whole issue of tracking what it means to be a purposive utility.

There is one important caveat to this. For many purposes and audiences (see above and Annex 1), *how* the metrics are arrived at with stakeholders and in particular customer groups, particularly the communities that geographic monopoly providers operate in, can be just as important as what the metrics contain. Co-invention isn't just a fad! Stakeholders can also be crucial in helping companies monitor performance against some metrics (particularly when they have direct first hand knowledge of the service and its impacts and can monitor performance on the ground and in real time).

The Financial Reporting Council (FRC) code, recently revised, gives a flavour here:[4]

> The **UK Stewardship Code 2020** is a substantial and ambitious revision to the 2012 edition of the Code which takes effect from 1 January 2020.
>
> The new Code sets high expectations of those investing money on behalf of UK savers and pensioners. In particular, the new Code establishes a clear benchmark for stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
>
> There is a strong focus on the activities and outcomes of stewardship, not just policy statements. There are new expectations about how investment and stewardship is integrated, including environmental, social and governance (ESG) issues. The Code asks investors to explain how they have exercised stewardship across asset classes. For example, for listed equity, fixed income, private equity, infrastructure investments, and in investments outside the UK.
>
> The Code consists of 12 Principles for asset managers and asset owners, and six Principles for service providers. These are supported by reporting expectations which indicate the information that should be publicly reported in order to become a signatory.

[4] https://www.frc.org.uk/investors/uk-stewardship-code

The following list of different Environmental, Social, Governance and Cultural metrics is neither exhaustive nor prescriptive. It is intended to provide an overview of the sustainability metrics landscape.

Environmental Metrics

There is a huge amount of information on metrics in this area.[5] Key sub-categories include:

- Net zero/carbon reduction (often delineated between scope 1, 2 and 3 emissions).

The three Carbon "Scopes" were developed as part of the GHG Protocol process – to avoid two or more companies/countries accounting for the same emissions within the same scope. This aims to avoid double counting and help clarify "ownership" of carbon.

1 **Scope 1 emissions – "direct emissions"** - are emissions from sources that are owned/ controlled by the utility. Emissions in generation would score here (for generators) as would fleet emissions and emissions from on-site generators in, say, a water treatment works.

2 **Scope 2 emissions – "indirect emissions"** - are emissions from purchased electricity, heat, steam or cooling consumed by the company, but generated elsewhere.

3 **Scope 3 emissions – "other indirect emissions"** - are emissions that occur as a consequence of the operations of the organisation, but are not directly owned or controlled by that organisation. For example, emissions from waste generated by a company's operations, and many supply chain emissions (excluding purchased electricity). This is the least straightforward area: the GHG Protocol Scope 3 guidance outlines 15 different Scope 3 categories!

- Adaptation to climate change - e.g. flood, heat wave, storm resilience, drought; note this is often underplayed in formal ESG reporting.
- Impact of new construction projects/network maintenance. This can/should include generated transport and energy use, but also use of virgin aggregates and recycling of spoil, disamenity – e.g. to local communities – and habitat loss/damage. A key tool here is analysis of product life cycles. Product life cycle analysis will critically cover embedded carbon, use of non-sustainable timber etc and water use in water stressed areas: the last is an important development in recent metrics. A good example in utilities is life cycle analysis of different sewer pipe materials (where concrete, despite its carbon footprint, is found to be superior to plastic and iron[6]), analysis of the life cycle costs of PE pipe in gas networks, and of cement/concrete/steel in construction.
- Biodiversity, both on owned assets and from discharges (a particular issue for water). For water companies this should include the Environment Agency's annual rating of companies for performance on water quality.[7] Biodiversity metrics may be extended to and/or summarised through wider analysis of natural capital.

[5] For an introduction – albeit aimed at energy - the OFGEM methodology guidance on RIIO2 environmental action plans is not a bad place to start and is set out in annex 3, though it is light on adaptation and does not set baseline years or periods of comparison. Our environmental risk paper, referred to above, is also relevant.
[6] See for example https://www.sciencedirect.com/science/article/abs/pii/S2210670716301408
[7] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/815129/Water_company_performance_report_2018.pdf

The Natural Capital Forum define natural capital as: 'the **world's stocks of natural assets** which include geology, soil, air, water and all living things. It is from this natural capital that humans derive a wide range of services, often called ecosystem services, which make human life possible'.[8]

A number of utilities include Yorkshire Water and United Utilities have pioneered the use of natural capital.

For information on how to practically identify and incorporate natural capital, a good starting point in the Natural Capital Committee's (NCC's) 'workbook'[9]

And for an introduction to valuation and use in specific decisions, see 'Economic valuation and its applications in natural capital management and the Government's 25 Year Environment Plan'[10]

Finally, for a guide to using natural capital in companies, prepared for the NCC, see 'Developing Corporate Natural Capital Accounts'[11]

- Wider environment (including air quality, office waste and recycling, water use).
- Supply chain performance – including sustainable procurement.

The factors that should be considered by sustainable procurement include non-renewable material use, manufacture and production methods, logistics, recycling options, disposal and supplier capabilities. At the macro level, sustainable procurement can deliver better economic, environmental and social outcomes. These macro level issues also need to be considered while analysing the impact of sustainable procurement on the purchasing and supply chain environment: economic impact of sustainability refers to corporate governance, ethical trading and payment on time; environmental impact may include biodiversity, climate change and carbon footprints factors; and social impact incorporates diversity and human rights (CIPS: Sustainable Procurement). At the micro/organisational level, sustainable procurement can generate value for money and raise efficiencies within organisations (e.g. by managing supply risks and augmenting resource productivity levels) and lead to cost effective procurement (CIPS: Sustainable procurement; Improvement and Development Agency, 2003; Thomson and Jackson, 2007).

Chartered institute of procurement and supply

Environmental metrics will need a degree of tailoring depending on which sector is under consideration. So, for example, the electricity networks have particular issues on SF6 and amenity/landscape, gas networks on biomethane, methane leakage and the life cycle of PE pipe, and the water sector on adaptation – most notably drought preparedness – and aquatic biodiversity.

We suspect, based on conversations with companies and investors, that the current emphasis in some companies on carbon metrics, partly because this is currently a particular focus of the financial community, may lead to insufficient attention being paid to other types of environmental metrics.

[8] naturalcapitalforum.com/
[9] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/608852/ncc-natural-capital-workbook.pdf
[10] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/608850/ncc-natural-capital-valuation.pdf
[11] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/516967/ncc-research-cnca-summary.pdf

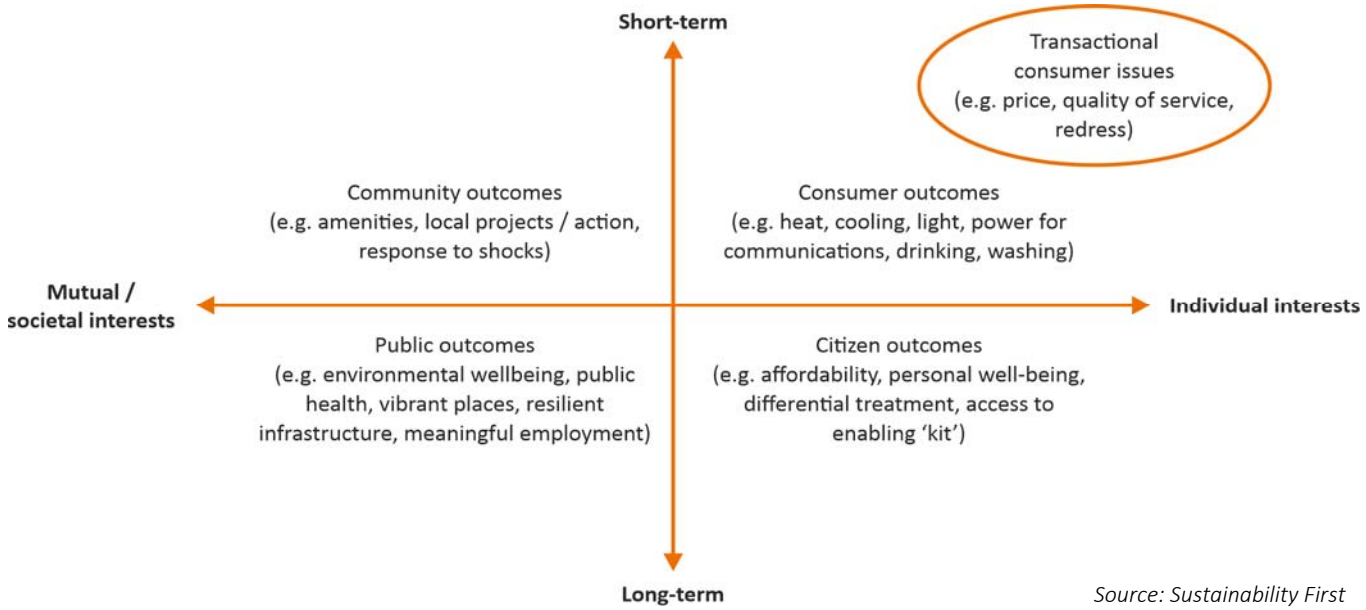
Social Metrics

These metrics are – in totality at least – less well developed than environmental metrics: a fact which has repeatedly been highlighted to us in the specific context of ESG reporting. There also appears to be little consensus about coverage: for example, is customer performance a social metric? What about adherence to modern slavery law? And, for utilities which are part of complex systems, how important are indicators of partnering with others?

Some potential social elements are however well developed – e.g. gender pay gaps and fair-trade campaigns. And there has been encouraging work by some utilities on fair taxes and on metrics such as Social Return on Investment (see page 28).

Part of the problem is how the company defines its social stakeholders – the old school approach concentrates on customers, which emphasises short term transactional interests. Some regulators still only augment this with a few vulnerability measures. We argue strongly that a wider view is needed taking in communities, health impacts etc.

Diagram 1: How the consumer lived experience in energy and water is shaped by the context in which the sectors operate, timescales and 'mutual / societal' interests



Source: Sustainability First

More than on environment there is also a strong difference in investor attitudes. Some US and Middle East investors would go little further than mandatory issues:

- Requirements for all companies: e.g. disability legislation, health and safety.
- Requirements for listed companies; and (where the company is covered).
- Requirements for regulated monopolies.

Others see social metrics as an essential part of demonstrating the company's fairness agenda and the delivery of public value. In what follows we do not treat compliance with national law as a social metric. If it belongs anywhere this would be in governance.

The lack of consensus around these metrics in part reflects the fact that outside Corporate Social Responsibility there remains even in the UK some debate about the appropriate roles of the state and companies in terms of the social support provided by the benefits system and the actions taken by the utilities themselves. The extent of acceptable cross subsidies within utility bills – even or perhaps particularly given the relatively regressive nature of

utility bills when compared to general taxation – is a key question here. A number of companies have not always thought about issues from a formal 'social' standpoint even when they are doing things which many people would place in this area. There are also issues that some social considerations (e.g. 'community') are less obviously given to monetary valuation or maybe seen more as 'co-benefits' rather than direct benefits to/from a company.

In addition, while environmental stakeholders have been vociferous on a whole range of environmental impacts and net zero has been a huge catalyst for change, and there are influential environmental regulators, the social agenda is less clearly defined (although fuel poverty in particular has served to focus attention). There is also no clear public body advocating for social issues, to match the CCC and the Environment Agency on the environment.

Many of the groups operating in the social area can be geographically dispersed or focussed on particular aspects of social issues - poverty/debt issues, slavery, workers' rights, service for customers with additional needs - rather than looking collectively at all social issues and their interdependencies.

However, while noting that social metrics are not the same as customer metrics, we can identify a number of areas which comprehensive metrics should in our judgement cover. While sub optimal in some cases, these will need to be process measures.

a) Distributional impacts – for example bills as a proportion of income by income decile (or that company's contribution to the overall bill - a differential issue for energy networks and where water only companies are present). There is an obvious link to concepts of fuel and water poverty (see for example Ofgem's recent work[12] and Annex 5)
b) Customers in vulnerable circumstances. While companies are extending their knowledge of these groups there is more work to do in this area. And Covid is placing a further emphasis on this, with new vulnerabilities emerging that may not match existing utility priority service categories. Good practice would require: i) monitoring and reporting of numbers of customers in vulnerable circumstances likely to be served by the company and whether the company has sufficient information to identify them and where assistance may be needed; ii) data on the extent to which companies are increasing access to potentially excluded groups. This can cover the impacts of inclusive design policies; iii) data on the delivery of tailored services for customers with additional needs such as accessible websites; via training and accreditation e.g. with the BSI Standard for inclusive service iv) metrics on safeguarding/protection and v) quality/satisfaction and awareness data with regard to vulnerability offers
c) Customer satisfaction (lagging outcome measure) based on service standards and **performance** (contemporaneous process measure). There is some debate about how far general indicators of service performance and customer satisfaction are actually social metrics at all, although some of the disaggregated data (e.g. geographically, by age and/or income group/employment status) would be. We assume that utility companies are already familiar with these measures so do not describe them further here.
d) Health, safety and public health. Utilities have long experience in collecting metrics related to health and safety. In the wake of Covid there is also an issue around public health: how far does this feature as a core part of sustainability, and as part of social metrics. For water companies this is far from new: drinking water quality has long been a central statutory metric, and there has been a long history of action to tackle issues such as sewer flooding. In gas, carbon monoxide is also a clear focus. But there is a strong case for all companies taking stock, and brainstorming/mapping their public health 'footprint'.
e) Staff metrics. Many of these are present below under cultural/governance metrics but social metrics could include the extent of local employment and/or apprenticeships.
f) Community/local impacts. This is particularly important in utilities given that most companies have a clear geographical footprint but often wide geographical coverage and can very easily lose touch with distinct local factors and/or appear out of touch. This can then come back to 'bite'

[12] https://www.ofgem.gov.uk/ofgem-publications/162926

companies when there is a genuinely local problem such as an outage or a planning application. Community metrics also strike a chord with current themes around 'place shaping'/'place based approaches'. Many companies work with volunteers from communities (including through community-based bodies such as Citizens Advice Bureaux, rivers/wildlife trusts, Groundwork trusts) and take local apprentices. Others have good education programmes (although it is important to note that some education programmes have not really thought through what teachers and pupils need). With the Covid-19 recovery, community factors may well grow in importance. In the energy sector, local metrics are also likely to get increased attention given the development of Local Area Energy Plans.

g) Engagement. Inclusive engagement approaches' including treatment of traditionally underrepresented groups such as young and BAME customers, and future generations. On the latter, metrics could consider how representative are focus groups/panels (younger people tend to be underrepresented), how far there is a conscious attempt to engage with sixth formers/university/FE students etc. There are also design issues: e.g. do WTP questionnaires cover the 'bequest motive' – 'how much are you willing to pay to ensure … for your children'.

h) Extent of multi-agency working. This is important, particularly for delivery in areas such as debt counselling (drawing on experience from third sector bodies such as housing associations, food banks and citizens advice) and catchment management (working with farmers, Rivers Trusts etc). A number of the better utility companies are recognising that assistance on delivery areas such as debt is outside their USP, and that customers can easily get overwhelmed. Metrics for delivery through partnerships can also be relatively easily compiled: e.g. number of people reached through third party debt counselling, km of river bank improved through partnership. Given that utilities often find it hard to ensure their workforce, and particularly senior leadership, fully mirrors all the diverse communities they serve it is particularly important to work with and through bodies which do; but metrics can be misleading.[13]

i) Fair tax. As nationally based public purpose companies utilities need to be seen to practice what they preach here. A number of companies have therefore removed offshore entities from their ownership 'tree'. Tax 'management' is something of a grey arrear: even legitimate tax management can attract criticism. Others (most notably SSE and UU with their Fair Tax Marks) have gone considerably further.

j) Supply chain. Metrics may capture how far the company looks to do local sourcing (where compliant with procurement legislation); and does the company require suppliers to source locally, avoid modern slavery etc, pay living wages etc?

Again, details of these need to be tailored to the sector in question. Within sectors there are some common indicators but beyond that also different regulatory and wider indicators, which makes it hard to compare. Ofgem requires more social reporting than Ofwat has historically (though this may change). There is also a key difference between energy/telecoms – where customers can be cut off from supply or placed on economically disadvantageous tariffs - and water where customers cannot be cut off, and where the only tariff differentiation within company for households is between metered and non-metered customers.

In competitive sectors there are no common social metrics by which customers can compare companies before switching – this is a gap we flagged in our 'Project Inspire' work.

[13] The number of partnerships could even in the area of engagement be a misleading and pointless marker and could incentivise unhelpful behaviour. Some companies measure stakeholder or partnership satisfaction, which isn't a bad indicator though when they are paid/part funded by the company for a service (as many charity partners are) they are arguably always overly positive.

Governance and cultural metrics

We cannot stress strongly enough that public purpose needs to be a generic and strategic issue for utilities, and other similar organisations that use private capital to deliver public value. Ensuring that the governance of a company supports the right culture (which after all 'eats strategy for breakfast') is an essential part of delivering on purpose and maintaining a Sustainable Licence to Operate. Sustainability is all about 'balance' and judgements. Culture, values and behaviour are crucial here – not just rigid rule sets. And in a disrupted world, where the rule book may be out of date, this becomes even more important.

In what follows we deal with governance metrics first and then culture. This is not however a statement of relative importance, more that companies approaching the issues from an ESG standpoint/mindset will need to frame both against the backdrop of governance.

In July 2018 the Financial Reporting Council revised the UK Corporate Governance Code, setting out as principle 1A on leadership: "*A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.*"

Assessing the effectiveness of **governance** is a key part of delivering a purposive company with sustainability and fairness as central tenets. Not all aspects of purposive governance are amenable to metrics (for example simplifying structures of or removing altogether holding/offshore companies, ensuring fair appraisal techniques for major decisions etc) – and even where they are some will be repetitious year on year. But those that are can include:

a) 'Baseline' factors: Such as modern slavery, safeguarding, compliance with health and safety, data protection/GDPR, regulatory compliance and anti-corruption policies and political donations.
b) Stakeholder engagement: Governance metrics need to enable the board and others to judge how far customers and other key stakeholder groups have been engaged in and have helped to co-create approaches to key sustainability issues and metrics. Equally they need to demonstrate these factors to stakeholders, including regulators and customer groups.
c) Returns and dividends: This is a significant issue for utilities. Governance metrics need to capture whether these are transparent – and whether risk and return are being shared on a 'fair' basis.
d) Diversity: Board and senior team diversity (gender, race, disability etc). This is particularly important for monopoly utilities – as customers cannot choose their company, companies need to map their diversity against that of customers: not to say they should slavishly follow this, but it is important to understand how different the board and senior team make up is from that of bill payers and to make conscious decisions as a result. Diversity of approach/mindsets/background at senior/board level – avoiding group think – and throughout the organisation is also important. Utility company leadership can be dominated by engineering and accountancy mindsets: metrics could therefore look at the number of 'outsiders' (both to the industry and to these two professions) that are present at senior level.
e) Profile of sustainability issues at the board level. Frequency of discussion at board/sustainability committee of sustainability metrics and issues. And discussion of the results of external sustainability audits, where undertaken.
f) Alignment of sustainability work with risk function. There needs to be a consistency of approach from sustainability/public purpose through risk; sustainability metrics, suitably chosen, ought to feature in strategic risk registers. Our work elsewhere in the Fair for the Future Project has mapped environmental and other risks including those around the customer lived experience. For utilities some of this will be second nature: if an energy company does not have performance against net zero as a strategic risk they would be foolish. Equally, water companies will be monitoring discharges to rivers because of the associated reputational risks and drinking water quality impacts.

As noted above, if utilities genuinely want to move towards a public purpose/Sustainable Licence to Operate they can only do this through their staff and cultures. Boards and executive directors therefore need, in order to track success in this transformation, to

think as seriously about **cultural metrics** as about the more formal G part of ESG.

Measuring culture, and cultural change, is however difficult.

Employee relations are clearly a good indication of the culture of a company and something absolutely within a company's control. Satisfied employees are more likely to put a company's purpose and values into action. But ensuring employees are satisfied is hardly unique to the purposive agenda, and a company moving through the 'change curve' may well see a dip in such metrics initially.

More relevant here is the measurement of sustainability as it is taken into account in decisions around recruitment, remuneration (executive and operational) and ongoing employee engagement. Measures of staff capability in terms of sustainability are also important: for example, numbers of staff with primary expertise in social/environmental issues; numbers of other staff with environmental/social training.

In analysis cultural metrics it is also important to distinguish between:

Leading indicators of culture change are nearly always process indicators: how far are we on with OD, how many customers have moved/been moved to new product lines, how far competency and reward frameworks have changed. Many ED teams can confuse process with outcome, particularly since staff will often tell them what they want to hear.

Survey evidence – customer satisfaction, anonymous employee engagement etc – provides better output measures but is often a **lagging indicator**: in the case of customers often seriously lagging (e.g. in water where most customers only really interact with their water company when something goes wrong). There is also a lot of 'noise' – local outages, bill increases etc - which will affect these metrics at any one time, whatever the position on culture change (separating the signal from the noise, to use the jargon is particularly difficult). And even if culture has genuinely changed, customer views will take time to accept his, particularly if there have been high profile past failings.

The prize is how to get **more contemporaneous indicators of outcomes**: signs that culture really is changing. Regular independently compiled pulse surveys with samples of staff and customers, particularly if there are opportunities to get comments and or input from face to face interviews are a familiar tool/metric here.

For most network utilities the main interactions with customers are through call centres/contact centres, digital interfaces and through operation engagement such as leaks/outages repairs and installation (e.g. meters) and meter reading. So forming a judgement of sustainability and particularly social culture is often best targeted at these areas There are a range of techniques within standard customer satisfaction which can be broken down by the particular interface to form a judgement of culture within each type of interface. But there is also a lot to be said for targeted and suitably designed **mystery shopping**, not just to reveal information about aggregate customer handling but also around the interface experience of particular subsets of customers – e.g. digitally disadvantaged, those without English as a foreign language, disabled customers. Mystery shopping can provide a time series of how the customer/company reaction is starting to feel without the deadweight of past experience.

Increasingly '**big data'** – and the slightly sinisterly named 'dark data', social media tracking and third-party data interrogation - can help move what have been lagging indicators into a more contemporaneous place. Some of these data sources and interrogation come close to what has been a bit of a holy grail in regulated utilities – meaningful revealed preference analysis.

Wikipedia defines dark data as 'data which is acquired through various computer network operations but not used in any manner to derive insights or for decision making. The ability of an organisation to collect data can exceed the throughput at which it can analyse the data. In some cases the organisation may not even be aware that the data is being collected. IBM estimate that roughly 90 percent of data generated by sensors and analog-to-digital conversions never get used'.

In utilities this includes much data from telemetry, including smart meters. Increasingly AI and other data interrogation devices means that the power to analyse such data exists, and conscious decision can move information from dark data to big data and the information it yields can be exploited.

Conversely, the existence of so much dark data has also been identified as a big threat to companies, for example through unconscious breach of GDPR and as a route for exploitation by hackers.

Two areas where this has been explored most fully is around innovation culture and culture in call centres/direct customer contact:

An innovation culture in utilities is particularly important to sustainability because these areas are often not 'hard wired' into existing ways of working. Although some 'big ticket' innovations (for example with regard to hydrogen trials in gas networks) require significant capital and regulatory approval many others require much smaller scale changes which can bear fruit within price control periods. Relevant cultural indicators can be produced for 'external' – e.g. through the supply chain and stakeholders and 'internal' culture - and can be compared across a sector. Within internal metrics, it is worthwhile distinguishing between leadership and staff.



The design of sustainability metrics for public utilities

For all companies, different metrics, for different audiences, have a number of different characteristics. These include technical issues such as periodicity and level of aggregation, but also more fundamental issues: financial, monetised and non-monetised; and as mentioned above, leading or lagging metrics; and process versus outcome measures. These issues will also vary by use/customer for metrics.

Annex 4 provides an overview of the issues relating to the frequency and aggregation of metrics. Typically, the closer to operational decisions/assurance the metrics are used for the more frequent the reporting and the greater the degree of disaggregation. Conversely, much external reporting – particularly for audiences such as audit and investors for whom public purpose is not their primary concern – may well be annual and aggregated.

So what does this mean for utilities?

One particular issue for utilities is that for regulated monopolies there is little information to be gained from tracking the short term bottom line. Equally, most customers engage relatively infrequently with their utility provider, and any one month's figure for customer satisfaction may yield relatively little information – given the difficulty in separating the signal from the noise. Finally, it is almost impossible to run utilities without outages, releases of pollution (for water companies) etc. which will have a random component and will also be heavily weather dependent.

One of the key uses of metrics for utilities is then that they can be used to track progress and enable early internal and external alert if things are going off track. Good programme management alone would suggest giving serious thought to identifying interim and process metrics which can give this early warning/enable focus on the issues which really need focus. The phrase 'corporate whack a mole' is often used in a derogatory fashion, but much corporate life is like that: if the moles cannot be identified early they can become more serious issues! Equally if moles are becoming a state of life, then that says something powerful about capability.

A final issue concerns the design of metrics in complex systems. There are no easy answers here. System wide metrics may capture aggregate performance but will offer few clues as to drivers of change and may well lag the emergence of problems. Detailed metrics will typically underplay dependences/interactions. In engineering systems at least data quality can be improved by telemetry and real time data reporting and interrogation. But this is of necessity more difficult in natural and other systems such as water catchments, particularly since not all parts of the system will be owned or even controlled by the utility. We suspect that aggregate metric are probably best, but backed up with a system of early trigger points and root cause analysis based on more detailed operational metrics.

So, in summary, the design of metrics for public utilities needs to:

a) Compensate for the absence of short-term market signals;
b) Look for indicators of progress to long term goals, and early signs of long-term problems;
c) Cover a wide range of stakeholders, in a number of different interactions;
d) Consider systems as well as vertical indicators; and
e) For networks with a geographic footprint, be able to tell a regional/local story.

Some of these issues are further explored in our Fair for the Future Project Viewpoint Paper on issues for Sustainability, governance and the role of the company secretary. And some further thoughts about the use of metrics in designing strategies are contained in Annex 4.

Are metrics sufficient to assess sustainability in public utilities?

Properly designed metrics are invaluable tools for any utility, for the reasons set out above. However, there is a wide body of experience which suggests that relying solely on formal metrics/KPIs can be dangerous.

First, as recent experience at Southern Water has shown, numbers are only as good as the **processes** which produce them. The same applies (probably more forcibly given their impressionistic nature) to Red, Amber, Green 'RAG' ratings.

Second, metrics (and targets) inevitably risk a lack of attention to **things which are not, or cannot be, measured**. The choice of a particular metric risks over concentration on that particular issue. The importance of culture is a classic example here.

Third, if the metric measures an **intermediate/process based** rather than a final outcome, then seeking to change the intermediate outcome can lead its relationship with the final outcome to break down. An example here would be using the percentage of patients missing a 4-hour target to be seen in A and E as an intermediate indicator of hospital performance. Once this becomes the target, the incentive to quickly deal with a patient who has not been seen for over 4 hours is markedly reduced. And processing time (easy to measure) can dominate over quality of outcome/service (harder). This is known as Goodhart's law.

Fourth, most metrics are **point estimates/single figures**. But in the real world, and particularly a disrupted world, ranges, particularly for forward looking metrics, are crucial. This is a widespread issue, but is perhaps most true where there is a focus on monetisation: it is well known that monetised approaches (even ones using techniques such as Willingness To Pay and SROI to extend the coverage of monetisation) will underplay key parts of social and environmental impacts which cannot be monetised.

Finally, metrics need to be consciously designed for a **purpose**, and used for that purpose. Some of the 'industry' of ESG seems to us to be more about PR/returns for the designers than a result of real thought as to the utility to the company and its stakeholders. If the purpose of ESG metrics is to arrive at good outcomes for people and planet (particularly for regulated businesses that deliver public value), the metrics chosen need to be meaningful and transparent/accessible to stakeholders; not create new forms of 'black box' decision making. Reports that some firms are 'selling purpose' and producing metrics which are so costly to access that wider stakeholders cannot afford to use them to assess performance/hold companies to account are cause for concern and run the risk of adding to problems with legitimacy in the utilities sectors.

> ' …Another problem is measurement. Ideally a fund manager with a portfolio or a bank boss with a loan book could gauge its total net carbon footprint, including the supply chains companies use and the emissions their products release – and do so without double counting. … unfortunately, corporate disclosure is so bad this is impossible, at least for now. Instead fund managers resort to using dubious ESG ratings, created by external advisers, that make subprime credit scores look like the gospel truth.'
>
> The Economist June 20th 2020

To help address these points, there are strong arguments for presenting metrics as part of a suite of information. This could include:

- Informal commentary/narrative on the metrics to draw out trends/key issues and explain what is happening and what it signifies;
- Scenario analysis;
- Clarity on assumptions behind the metrics and the choice of metrics;
- Trajectories to medium/long term objectives;
- Quantitative approaches to non-measured outputs – e.g. community; regeneration benefits;
- Other parts of balanced scorecard/risk assessment: e.g. RAG rating for major internal projects; and
- Values and ethical considerations.

It is out-with this paper to discuss presentation of metrics, however in many ways this can be as important as the choice of metrics. However, some of the tools set out below carry with them presentational devices which may give some useful hints and suggestions.



Some of the main frameworks, tools and approaches for assessing sustainability performance in public utilities

The main genesis of this paper has been the plethora of metric 'offers' and approaches which are available at present. Companies have told us that they struggle to work through these, and to work out the relationships between them, and that they also face particular interests – for example, owners – who are strongly pressing for particular approaches which fit with their wider interests. Although there is now an increasing consolidation of methodologies, particularly around carbon metrics, there is still some degree of confusion and questions as to how the different offers relate to regulated public utilities.

This section offers a brief guide to the main approaches being offered, and to some of the relationships between them. We would, however, strongly urge companies to start with an assessment of what they need to measure and report and identify for whom/which purpose rather than start with a particular metric/approach and work back from that.

UNSDG

A set of 17 'goals' adopted by the 193 countries of the UN general assembly in 2015 as part of the Rio plus 20 process to establish the 2030 agenda for sustainable development. They are accompanied by 169 associated targets and 232 indicators established to measure compliance.



Source: United Nations Sustainable Development Goals

SSE has four sustainability objectives linked to the UN Sustainable Development goals. These objectives are directly linked to executive performance measures – putting sustainability right at the heart of SSE's strategy and operations.

- Cut our carbon intensity by 50%
- Help accommodate 10m electric vehicles
- Treble renewable energy output
- Champion fair tax and a real living wage

The goals, targets and indicators are probably too clunky to be used as formal metrics by utility companies, and indeed some of the areas have only passing relevance. But the goals have been successfully used many companies as a framework to undertake baselining of their impacts, and to down select those issues which merit further analysis.

They have also been used as a communications device, to set out the company's assessment against what is at the least a comprehensive approach to sustainability.

Source: SSEN Transmission A Network for Net Zero RIIO-T2 Business Plan December 2019

World Economic Forum (WEF): Towards common metrics and consistent reporting of sustainable value creation: World Economic Forum 2020

The WEF work has taken the UNSDG goals and emerging thinking on ESG as a starting point and aligned reporting under four pillars: principles of governance; Planet; People; and Prosperity. They aim to take material from existing disclosures – for consistency and ease of application – rather than creating a new standard.

Figure 1: Summary Overview of Core Metrics and Disclosures

Pillar	Theme	Sub-themes, Core Metrics and Disclosures	Sources
Principles of Governance	Governing Purpose	**Setting purpose** Whether the company has a stated purpose linked to societal benefit and their core business	GRI (102-26), EPIC, Colin Mayer and others
	Quality of Governing Body	**Board composition** Composition of the highest governance body and its committees by: executive or non-executive; independence; tenure on the governance body; number of each individual's other significant positions and commitments, and the nature of the commitments; gender; membership of under-represented social groups; competencies relating to economic, environmental and social topics; stakeholder representation	GRI (102-22), GRI (405-1a)
	Stakeholder Engagement	**Impact of material issues on stakeholders** A list of the material topics identified in the process of defining report content and how they impact stakeholders	GRI 102-47
	Ethical Behaviour	**Anti-corruption** 1. Total percentage of governance body members, employees and business partners who have received training on the organization's anti-corruption policies and procedures, broken down by region 2. Total number and nature of incidents of corruption confirmed during the current year but related to previous years 3. Total number and nature of incidents of corruption confirmed during the current year, related to this year	Adapted from GRI (205-2) and GRI (205-3)
		Protected ethics advice and reporting mechanisms A description of internal and external mechanisms for: 1. seeking advice about ethical and lawful behaviour, and organizational integrity; 2. reporting concerns about unethical or unlawful behaviour, and organizational integrity	GRI (102-17)
	Risk and Opportunity Oversight	**Integrating risk and opportunity into business process** Company risk factor disclosures clearly identify the principal risks facing the company specifically (as opposed to generic sector risks), the Board appetite in respect of these risks, how these risks have moved over time and the response to those changes. These should include discussion of data security and other emerging principal risks and should disclose the number of data breaches in the reporting period	Combination of EPIC and SASB (230a.1 and 2)
Planet	Climate Change	**Greenhouse Gas (GHG) emissions** Report GHG Protocol Scope 1 and 2 emissions in tonnes of carbon dioxide equivalent (tCO2e) and estimate and report upstream and downstream (GHG Protocol Scope 3) emissions where material.	GRI (305-1), CDP (C6, C7), CDSB (R03, R04), SASB (110a.1), GHG Protocol
		TCFD-aligned reporting on material climate risks and opportunities TCFD-aligned reporting on governance and risk management for all. If climate change is material in short, medium or long term, disclose strategy and metrics/ targets as well, including whether the company has committed to set a science-based target in line with net zero by 2050.	TCFD, CDSB R01, R02, R03, R05 and R06; SASB 110
	Nature Loss	**Land use and ecological sensitivity** Report for operations and estimate & report for upstream supply chain, where material, on: – overall area of land used or affected – annual change in area of land used or affected – number of IUCN Red List species present in areas used or affected.	Adapted from: GRI (304-1, 304-3, 304-4), CDP (F1)
	Fresh Water Availability	**Fresh water consumption in water stressed areas** Report for operations and estimate & report for upstream and downstream supply chain, where material, on: – mega-litres of fresh water consumed (withdrawals minus discharges of equal quality) in water-stressed areas.	Adapted from: GRI (303-3), CDP (W1), CDSB (R04), SASB (140a.1)
People	Dignity and Equality	**Gender pay equality (%)** Ratio of the basic salary and remuneration of women to men for each employee category, by significant locations of operation.	GRI (405-2)
		Diversity and inclusion (%) Percentage of employees per employee category, by age group, gender and other indicators of diversity	GRI (406-1)
		Wage level (%) Ratios of standard entry-level wage by gender, compared to local minimum wage for specific categories of workers	GRI (202-1)
		Risk for incidents of child, forces or compulsory labor (#, %) Number and percentage of operations and suppliers considered to have significant risk of: a) incidents of child labour, and b) incidents of forced labour, by type of operation and supplier, in terms of countries or geographic areas with operations and suppliers considered at risk.	GRI (408, 409)
	Health and Well Being	**Health and safety (%)** 1. The total recordable injury rate (TRIR) by specific categories of workers 2. The absentee rate (AR) for specific categories of workers	SASB (CN0101-18), GRI (403-2.a4)
	Skills for the Future	**Training provided (#)** 1. Average hours of training per person that the organization's employees have undertaken during the reporting period, by gender and employee category (total number of trainings provided to employees divided by the number of employees) 2. The average training and development expenditure per full time employee	GRI (404-1), SASB (HC0101-15)
Prosperity	Wealth creation and employment	**Net number of jobs created** 1. Total number and rate of new employee hires during the reporting period, by age group, gender and region 2. Total number and rate of employee turnover during the reporting period, by age group, gender and region	GRI (401-1a & b)
		Net Economic Contribution 1. Direct economic value generated and distributed (EVG&D) – on an accruals basis, covering the basic components for the organization's global operations, including revenues, operating costs, employee wages and benefits, payments to providers of capital, payments to government 2. Financial assistance received from the government (e.g. tax breaks, subsidies, investment grants etc.) 3. Net Economic Contribution = (EVG&D) minus (Financial assistance received from the government)	GRI (201-1 and 201-4)
		Net investment – Total capital expenditures (CapEx) – Depreciation – Share buybacks – Dividend payments Calculation: (Total CapEx - depreciation) / (Total cost of share buybacks + dividend payments)	International Accounting Standard (IAS) 7 – Cash Flow Statements
	Innovation in better products and services	**R&D spend ratio (%)** Total amount of spending on R&D as a percentage of total sales	2015 edition of the Frascati Manual for measuring R&D (OECD, 2015a)
	Community and social vitality	**Community investment (%)** A percentage breakdown of community investment, including monetary contributions such as charitable gifts and community partnerships; time contributions such as staff volunteering in paid time; in-kind contributions from services or equipment; and management costs, normalized as a percentage of pre-tax profit	GRI (G4-EC1)
		Country by country tax reporting 1. All tax jurisdictions where the entities included in the organization's audited consolidated financial statements, or in the financial information filed on public record, are resident for tax purposes. 2. For each tax jurisdiction reported in Disclosure 207-4-a: – Names of the resident entities – Primary activities of the organization – Number of employees and the basis of calculation of this number – Revenues from third-party sales – Revenues from intra-group transactions with other tax jurisdictions – Profit/loss before tax – Tangible assets other than cash and cash equivalents – Corporate income tax paid on a cash basis – Corporate income tax accrued on profit/loss – Reasons for the difference between corporate income tax accrued on profit/ loss and the tax due if the statutory tax rate is applied to profit/loss before tax 3. The time period covered by the information reported in Disclosure 207-4.	GRI (207-4)

Source: Toward common metrics and consistent reporting of sustainable value creation, World Economic Forum, January 2020

The Task Force on Climate Related Financial Disclosures (TCFD)[14]

This is by design and intent a climate heavy approach mainly used in financial markets and by financial regulators – particular interest has been expressed by FCA and FRC in the UK. This assesses companies against their disclosure of financial metrics, but also notes that metrics alone are not enough: hence its advocacy of scenario analysis (climate stress testing).

Recommendations and Supporting Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Source: Recommendations and supporting recommended disclosures, Task Force on Climate-related Financial Disclosures, TCFD: 2019 Status Report, June 2019

The International Integrated Reporting Council (IIRC)[15]

This is a global coalition promoting the worldwide adoption of 'integrated reporting' to improve communication about value creation, advance the evolution of corporate reporting, capture integrated thinking, and make a lasting contribution to organizational resilience, financial stability and sustainable development.

Organizations represented on the Council are drawn from broad global communities, including the accounting profession, business, investors, NGOs, regulators and standard setters.

There is no single template for integrated reporting – rather a looser framework: the onus is on members to use the framework to decide the precise KPIs/metrics for themselves.

[14] https://www.fsb-tcfd.org/
[15] https://integratedreporting.org

They argue:

'Integrated reporting is a process founded on integrated thinking that results in a periodic integrated report - a clear and concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, create value for its stakeholders in the short, medium and long term. The primary audiences of an integrated report are providers of financial capital, but it also benefits other stakeholders including employees, customers, suppliers, local communities, regulators, and policy makers.

Integrated reporting is viewed by many as the next evolution in corporate reporting, an antidote to the narrow and siloed focus on short-term, financial profit of traditional annual reports, which is now accepted to have far-reaching destructive consequences for the environment, society and the economy.

Integrated reporting incorporates financial reporting and sustainability reporting, while also providing a strategic view of an organization's past performance and future prospects. It challenges the way organizations think, plan and report about the financial and other resources, or 'capitals' [see below], they use and affect to create value.'

That said, while the intellectual case for integrated reporting is clear and even unarguable, the practical application – and the extent to which it points to any particular metrics tool - needs to be worked through by companies. Our discussion of data compilation and storage below discusses some of these practical issues.

The IIRC's **Better Alignment Project Report** was launched at the World Economic Forum's Sustainable Development Impact Summit during Climate Week NYC in September 2019. The project focused on a mapping of alignment between the frameworks of the Corporate Reporting Dialogue members IIRC, CDP, CDSB, GRI and SASB and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. While the consultation indicated there was market confusion regarding the differences between the reporting standards and frameworks involved, the mapping undertaken showed there is actually strong alignment of the frameworks between each other and against the TCFD recommendations.

B Corp and other assurance models for sustainable companies

B Corporation is a private certification issued to for-profit companies by B Lab, a global non-profit organization. To date over 3000 companies have achieved certification in over 70 countries. To be certified, companies must receive a minimum score on "a rigorous assessment of a company's impact on its workers, customers, community, and environment" –the assessment tool is free on the Bcorp website,[16] amend company governing documents, and re-certify every three years.

Although certification to date has been mainly in the food, third sector, consulting and finance areas, there is increasing interest in utilities. Some retail energy (e.g. Bulb) and suppliers (e.g. in the storage and renewables areas) have already achieved certification.

[16] https://bcorporation.uk

'6 Capitals' and natural capital reporting

The 6 capital approach identifies a company's stewardship and/or ownership of capital under 6 headings:

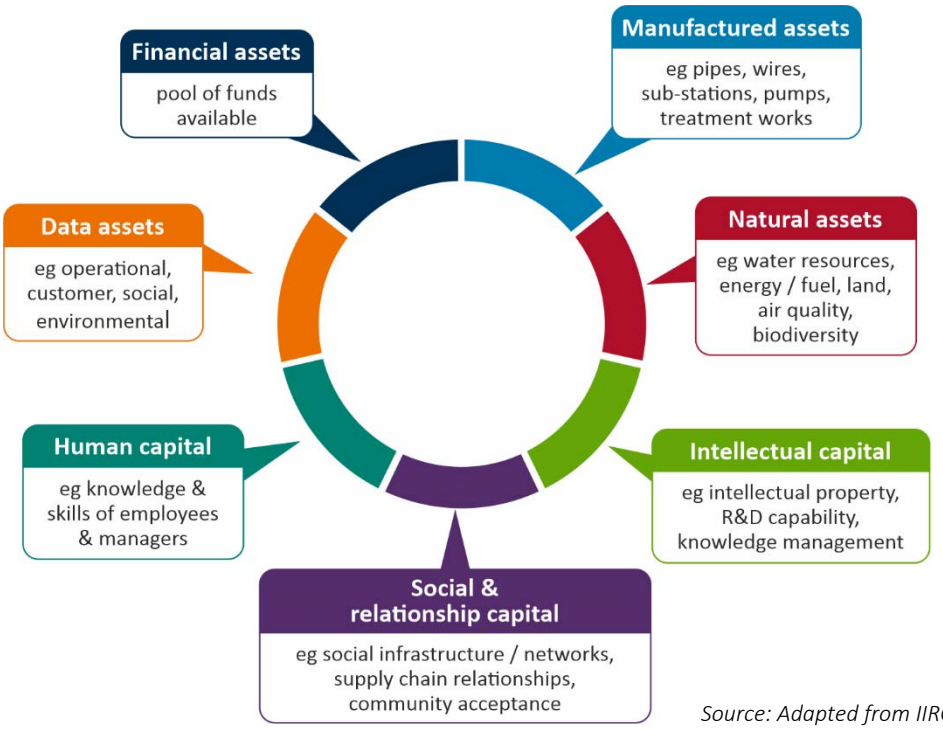
- Financial assets;
- Manufactured assets;
- Natural capital;
- Human capital;
- Intellectual capital; and
- Social and relationship capital.

Sustainability First have suggested adding a seventh category: data capital (see discussion on big and dark data above for an example of why this is important).

Various actors have concentrated on adding natural capital, or natural and social capital, as specific extra assets on conventional balance sheets.

> In 1975, more than 80% of corporate value was typically reflected on the balance sheet. Research suggests that today, across all global markets, this figure is only 50%; for some companies, such as major technology businesses on the S&P 500, it falls below 20%.
>
> This shift reflects the hugely increased importance – as economies become more service-based – of intangible assets such as intellectual property, human capital, organizational culture, corporate governance and public trust. These are all difficult to measure using conventional reporting frameworks but are vital components of business value
>
> Ernst and Young

Opinions differ about the best use of capitals approaches. Some companies such as Yorkshire Water seek to publish metrics on all 6 capitals. Further detail can be found in our 'Developing and embedding a purposeful business approach: a how to guide for public utilities.'[17] As previously noted, organisations such as the IIRC (see above) have also advocated this kind of approach. But others find that it is better used as a credible approach to strategy formation. And still others use the tools to judge specific trade-offs/decisions. The Government are considering the last of these approaches on natural capital with regard to planning decisions - in the form of requiring natural capital net gain - (although at present they have confined formal requirements to biodiversity). A number of the regulators have also expressed an interest in natural capital.



Source: Adapted from IIRC by Sustainability First

[17] tba

World Benchmarking Alliance

The World Benchmarking Alliance (WBA)[18] seeks to generate a movement around increasing the private sector's impact towards a sustainable future for all, based upon the UN Sustainable Development Goals (SDGs).

Aviva played a leading role in establishing the Alliance, and in the UK it now also includes organisations such as BiTC, Oxford University and the Cambridge University Institute for Sustainable leadership, as well as PWC. It argues that there needs to be real change in the way that corporate impacts are measured. To that end it has:

- identified 7 system transformations which are required: financial; decarbonisation and energy; food and agriculture; digital; social; urban; circular.
- Identified the 2000 key companies across the world for these transformations. Among UK utilities this includes: BT; Centrica; Thames Water; National Grid; Pennon Group; Severn Trent; and SSE.
- started to develop transformative benchmarks that will compare companies' performance on the SDGs. The benchmarks 'will be backed by the best available science, while leveraging existing international norms and standards'. So far benchmarks have been published for: gender; food and agriculture; climate and energy; seafood stewardship; and digital inclusion.

WBA are currently consulting on their new 'social transformation methodology'.[19]

They propose basing this on 15 key headings (note that for the UK a number of these might be classed as governance rather than social):

1. Commitment to respect human rights
2. Human rights due diligence
3. Access to remedy
4. Governance of human rights issues (board oversight)
5. Freedom of association and collective bargaining
6. Forced labour
7. Child labour
8. Discrimination
9. Gender equality and women's empowerment
10. Health and safety
11. Living wages and social protection
12. Personal data protection
13. Corporate taxation
14. Anti-corruption
15. Lobbying and corporate political influence

Investor aggregates

Utilities are increasingly turning to external measures and metrics against which they can assess the environmental social and governance elements of their day to day operations. These are often aimed at specific audiences, notably investors. There is currently a plethora of such measures. Without an overarching framework, it can be difficult to identify the actions that need to be taken as a result of the metrics of the consequences these may have. For the more forward thinking investors, metrics are perhaps at present starting to coalesce around GRESB and SASB. Many investor frameworks are eminently well founded, and it is understandable that investors look to measures which they already have experience of (e.g. infrastructure investors from the use of GRESB for real estate investments) as a short cut to fuller internal due diligence.



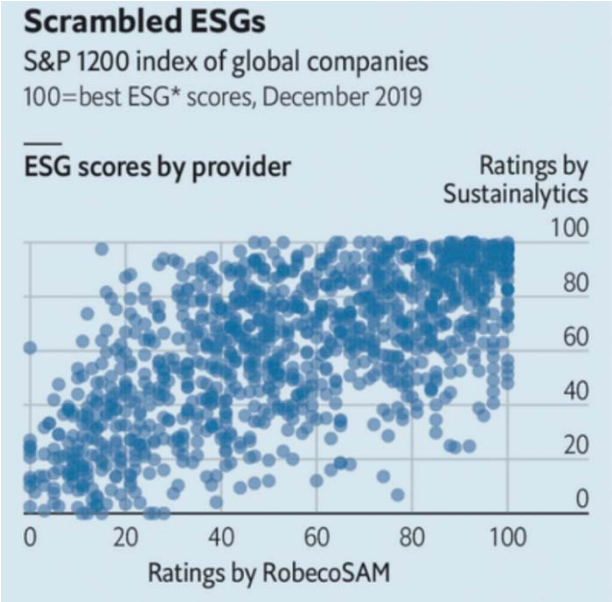
Source: What does GRESB do?, GRESB: The ESG Benchmark for Real Assets

[18] https://www.worldbenchmarkingalliance.org

[19] https://www.worldbenchmarkingalliance.org/wp-content/uploads/2020/05/Social-transformation-Draft-methodology.pdf

It is however the case that relatively few of these measures are fully grounded in existing reporting and data aggregation. There is also inevitably a concentration on quantified outcomes.

Perhaps more worryingly there is also evidence that different aggregate provider metrics can provide radically different comparative and absolute pictures of company's true performance.



Source: The Economist, 7/12/19, Climate change has made ESG a force in investing

Awards and rankings

Although many awards for sustainability encourage a degree of 'gaming' – or at least push companies in one particular direction at the expense perhaps of others – a number of utilities formally apply for these. Other companies – potentially more valuable – cite validation based on rankings across companies for particular attributes and are perhaps more objective.

BT, for example, with some justification proudly cite:[20]

' CDP A list: We remained on the CDP's global A List of corporate climate leaders for the fourth year running, putting us in the top 2% of reporting companies.

We also maintained our position in the CDP Supplier Engagement Leaderboard.

Clean200: We made the 2020 Clean200 list of the world's largest publicly traded firms, ranked by total clean energy revenues.

EcoAct: We retained our place in the top three of EcoAct's ranking of FTSE 100 companies for the seventh year in a row – and came tenth in their global rankings.

EcoVadis Gold rating: We achieved the Gold rating for corporate social responsibility for the seventh year running in May 2019.

Global 100: Corporate Knights included BT in its annual ranking of the 100 most sustainable corporations in the world.

Tortoise Responsibility100: We ranked fourth in the most recent quarterly index of FTSE100 companies in March2020.

It is outwith the scope of this document to analyse all the rankings listed here, and some at least would only be available to listed companies, but that is not to say they are without merit – and they give some idea of the wide variety available.

Social Return On Investment (SROI)

This is a technique used to analyse social impacts as part of investment appraisal – in part by relating impacts to issues such as jobs created which can be monetised. At present there is no single accepted methodology, which can lead both to misuse and also to regulators underplaying the results. There is a strong case for sector and/or regulator work to standardise the approach. But even given that, and noting the risk of implicitly undervaluing such elements as cannot be monetised, SROI is a major step forward in social metrics – perhaps in particular for comparison between investment options. It could also potentially be developed more widely as an aggregate company social impact measure.

[20] https://www.bt.com/bt-plc/assets/documents/digital-impact-and-sustainability/our-report/report-archive/2020/2020-dis-report.pdf

How do these different frameworks and approaches fit together?

Navigating these various approaches is not straightforward. The following Tables offer a couple of complementary approaches to understanding their roles and degree of 'stretch.'

Table: Overview of sustainability frameworks and approaches by E, S, G and Cultural factors

	Basic	Enhanced	State of the art
Environmental	CSR, existing ODIs	UNSDG, TCFD, scope 1,2,3 carbon, sustainable procurement metric	Plus adaptation, product life cycles incl embedded water, natural capital
Social	CSRs, modern slavery etc	Vulnerability, SROI	Plus accessibility, exclusion, working with social partners, natural and social capital
Cultural	Process	Customer and staff surveys	Independent pulse surveys, qualitative feedback, mystery shopper, reward based on purpose metrics, innovation cultural metrics.
Governance	Section 172, diversity	Enhanced annual accounts	Integrated reporting, commitment to independent assurance, perhaps through amended Articles of Association? B- corp accreditation etc

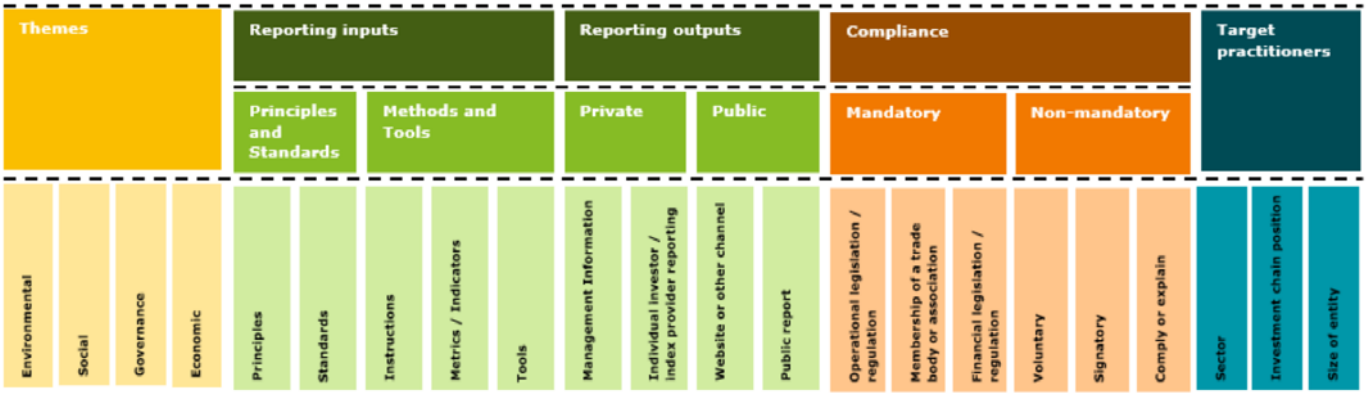
Table: Overview of sustainability frameworks and approaches by possible audience

	First stage	New basic	State of the art	Future
Investors	CSR	ESG	ESG +, GRESB/SASB	B corp?
Company accounts	CSR	CSR, article 172	IIRC, TCFD	WEF, independent assurance
Regulators	RIIO1/AMP6	RIIO2 EAP, AMP7	Plus adaptation, vulnerability	Independent assurance, full transparency
Strategy formation etc	UNSDG	Cultural process	Cultural outcome, 6 capitals, reward related measures	Pulse surveys, mystery shopper
Boards/EDs	ODIs	ODIs, cultural process, enhanced environmental	Balanced scorecard, enhanced environmental, vulnerability	Balanced scorecard, pulse surveys etc, social, adaptation
Wider stakeholders	CSR and customer communications	Regulatory reporting and customer engagement	Enhanced engagement and co-creation	Ongoing embedded engagement

Data compilation and storage

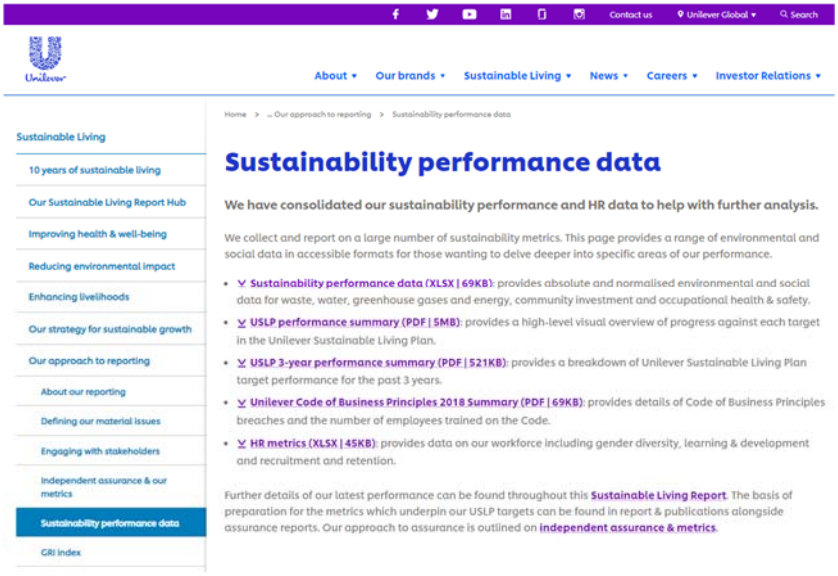
A number of interlocutors have commented to us that they are very willing to provide whatever metrics are needed, and to work up internal suites of metrics as well. But that there is a serious compilation and updating burden or servicing these many and different requirements. This partly reflects the lack of join up between different external metric suppliers/advocates. But, while many companies genuinely seek to ensure comparitabiltiy and assign clear roles, it also can reflect split/un-joined up ownership of sustainability within an organisation, something which, as argued above, companies should look to resolve.

One approach here is the creation of an overarching data repository to ensure that all the different metrics and reporting required of/desired by the company are consistent. This places all (as much as is feasible) the base data into one place, with transparent algorithms for drawing out particular sub sets of information, automatic updates as new information comes in and links to enable greater granularity to be accessed, underpinning headline metrics/presentation – and enabling charges of partiality to be readily rebuffed. We are under no illusion, such an exercise requires investment and some internal data would need 'protection' to avoid commercially sensitive information being accessed too widely. But it is we suggest worthy of serious examination. It is also incidentally akin to recognised good practice for due diligence, where all data is stored in a virtual data room.



Source: Social Impact Investment Taskforce: Better Reporting Landscape Report

A good example is Unilever:[21]



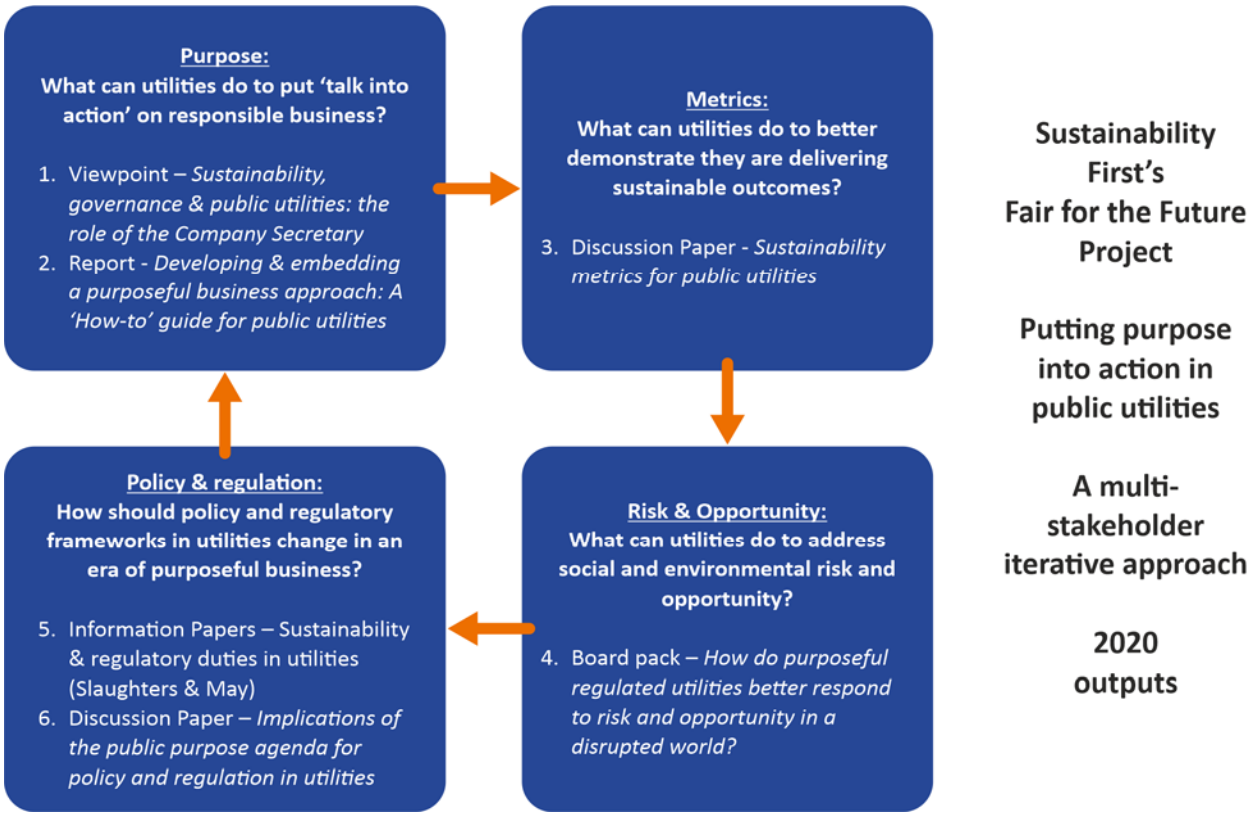
[21] https://www.unilever.com/sustainable-living/our-approach-to-reporting/sustainability-performance-data/

Sustainability First and the Fair for the Future Project

Sustainability First is a think-tank that promotes practical sustainable solutions to improve economic, environmental and social well-being. We are a charity that works primarily in public utilities.

This paper is part of Sustainability First's multi-partner Fair for the Future Project. Established in 2018, this major project aims to assist public utility companies and their regulators to better address the politics of fairness and the environment. Our extensive project outputs, including our Mid-Project Report, can be found here.

The Diagram below outlines the outputs that we will be producing over the remaining six months of the project,



Annex 1: Audiences for metrics

Even for sustainability metrics – let alone the wider components of comprehensive Management Information/KPIs - we have identified a considerable range of uses of metrics/the main customers:

- **Companies:** boards/senior execs – with some possible differentiation for Audit and Risk and Remunerations/nominations committees. A sustainability MI/balanced scorecard is needed to track company-wide culture and delivery, inform high-level decisions and assure board that company is on track to deliver on sustainability pledges.
- **Companies: operational** - specific information to guide day to day decisions and also specific issues such as sustainability linked reward.
- **Companies**: ensuring a sustainable **supply chain** and monitoring of the same
- **Companies and customers**: communication and two-way engagement;
- **Companies and wider stakeholders**: communication and two-way engagement. Also informs analysis and lobbying positions by NGOs.
- **Companies, regulators and customer challenge groups**: analysis to baseline company performance at the start of business planning rounds and to inform evaluation and setting of ODIs and monitoring performance against them.
- **Economic regulator**: judgements of penalty/reward. Information to assure conformation with licence conditions and meeting of public expectations and commitments. Potentially pursuing transparency in lieu of tighter oversight (as for example in financial services/pensions)
- **Other regulators** – e.g. Environment Agency, DWI, HSE: assessment of statutory compliance; compilation of sector data.
- **Customers in contested markets**
- **Input to sector metrics**: assessment of sector performance for PR, agreeing of areas for collective improvement, sharing good practice, and for judgements against sector agreed standards (e.g. water public interest commitment);
- **Investors**: (note these may differ between equity - typically more interested, though variably between public listed and private equity - and debt): ongoing assurance against ESG etc. Used for ongoing reporting, decisions on new investments/due diligence. Also used in some cases to judge cost of debt in ESG related instruments.
- **Central Government**: policy decisions; input to national planning statements and international reporting (e.g. against UNSDG)
- **Advisory ndpbs/agencies**: CCC, NIC, NAO (note ONS may have different requirements) etc: input to information to guide advice to government
- **Parliament**, select committees; Information as part of national democratic scrutiny
- **Regional/local**: sub national scrutiny and assessment. Input to planning decisions
- **Others**: academics, media etc

Annex 2: S172 of the Companies Act and the 2018 regulations

Section 172: Duty to promote the success of the company

(1) A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to —

(a) the likely consequences of any decision in the long term,

(b) the interests of the company's employees,

(c) the need to foster the company's business relationships with suppliers, customers and others,

(d) the impact of the company's operations on the community and the environment,

(e) the desirability of the company maintaining a reputation for high standards of business conduct, and

(f) the need to act fairly as between members of the company.

(2) Where or to the extent that the purposes of the company consist of or include purposes other than the benefit of its members, subsection (1) has effect as if the reference to promoting the success of the company for the benefit of its members were to achieving those purposes.

(3) The duty imposed by this section has effect subject to any enactment or rule of law requiring directors, in certain circumstances, to consider or act in the interests of creditors of the company.

The 2018 regulations state in addition that large companies are required to include a statement as part of their strategic report describing how the directors have had regard to the matters in section 172(1)(a) to (f) of the Companies Act 2006

Detailed guidance on the regulations can be found at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/755002/The_Companies__Miscellaneous_Reporting__Regulations_2018_QA_-_Publication_Version_2__1_.pdf

Annex 3: OFGEM RIIO2 Environmental Action Plan guidance

The following provides our initial views of the minimum level of ambition we would expect from the companies in their Business Plans. Where these initiatives, or equivalent, are not thought to be appropriate for their networks, companies should provide clear justification for why they believe this to be the case.

We expect that EAPs will to draw together the direct carbon impacts claimed in Investment Decision Pack submissions (for example leakage, losses, EV fleet) and will include a list of all Investment Decision Pack submissions where:

- carbon reduction is the main driver of the proposal
- carbon reduction contributes to a substantial part of the benefits claimed by the projects. For example, intervention on the gas network justified mainly on avoided leakage

Business carbon footprint (BCF)

- Adopt science-based target for company to reduce its scope 1 and 2 BCF by 20XX, without relying on international GHG offsetting
- Commit to efficient and economic actions to address controllable BCF in RIIO-2
- Identify metrics to track outcomes of implementing actions and overall progress towards science-based target
- Commit to reporting on scope 3 emissions

Transmission losses (ET only) and Shrinkage (gas only)

- Develop and adopt strategy to contribute efficiently to fewer losses on network, including over the long term, than would otherwise be the case in the absence of strategy
- Report on key milestones of implementing losses reduction strategy
- Contribute to evidence base on proportion of losses that network companies can influence/control

Embedded carbon

- Monitor and report on embedded carbon in new projects
- Collaborate with supply chain on addressing challenges to reduce embedded carbon in network
- Commit to establishing baseline and a target to reduce embedded carbon on new projects during RIIO-2

Supply chain

- Adopt high standards of environmental management in supplier code, including requirements for public disclosure of metrics and cascading code to their suppliers that are material to company's inputs
- Adopt target of more than 80% of suppliers (by value) meeting code in RIIO-2
- Report on actual percentage of suppliers (by value) meeting code

Resource use and waste

- Update procurement processes to embed Circular Economy principles

Adopt a target for:

- Zero waste to landfill by 20XX
- Recycled and reused materials as a percentage of total materials by 20XX
- Report on actual waste to landfill, recycling and reuse as a percentage of total

Biodiversity/natural capital

- Adopt appropriate tool to assess net changes in natural capital from different options for new connections and network projects.
- Adopt appropriate tool to monitor the provision of ecosystem services from network sites and report annually

Annex 4: Wider metrics issues: frequency, aggregation and use of metrics in implementing strategy in utilities

Typical periodicities to be considered when thinking about sustainability metrics are:

- Annual (e.g. for annual report, ODI rewards/penalties)
- Quarterly (main board MI)
- Monthly (ED MI)
- Daily and/or real time (some operational data)

It is worth noting that some data will only be available annually.

And similarly, on aggregation companies will adopt many if not all of the following:

- High level aggregation (e.g. single number/score): SROI, a number of aggregate ESG indices, natural capital accounting, indicators such as % of suppliers in sustainable supply chain agreements etc.
- By key output: Carbon reduction, number of customers on vulnerability tariffs;
- Further disaggregation: e.g. scope 1, 2, 3 carbon – or even further disaggregating scope 2 into fleet, office etc.
- Regional or local presentation;
- By business unit/ customer segment
- Highly disaggregated: e.g. by treatment works, office building or product line)

A final distinction here concerns the type of measure:

- Financial figures are clear, relatively unambiguous, and quite timely.
- Monetised figures are available for some environment and social impacts (e.g. SROI, see below, WTP).
- Non monetised figures, such as number of pollution incidents, number of smart meters fitted;
- Interpretational figures such as RAG ratings.

Generally, the further down this list a metrics goes, the more thought needs to be given to interpretation and (see below) to the limitations of the metric as a single 'score'.

The literature on metrics also pays a lot of attention to the distinction between leading, contemporaneous and lagging indicators.

The issue is closely bound up with the distinction between process, intermediate and outcome metrics.

The 'holy grail' of metrics is to have metrics for the final desired outcomes which appear sufficiently early to enable decisions to be taken in good time should things be moving in an adverse direction. This is more often the case however for financial metrics such as monthly P and L. But it is much harder for sustainability – although perhaps carbon metrics come closest – and is perhaps hardest for reputational and cultural metrics.

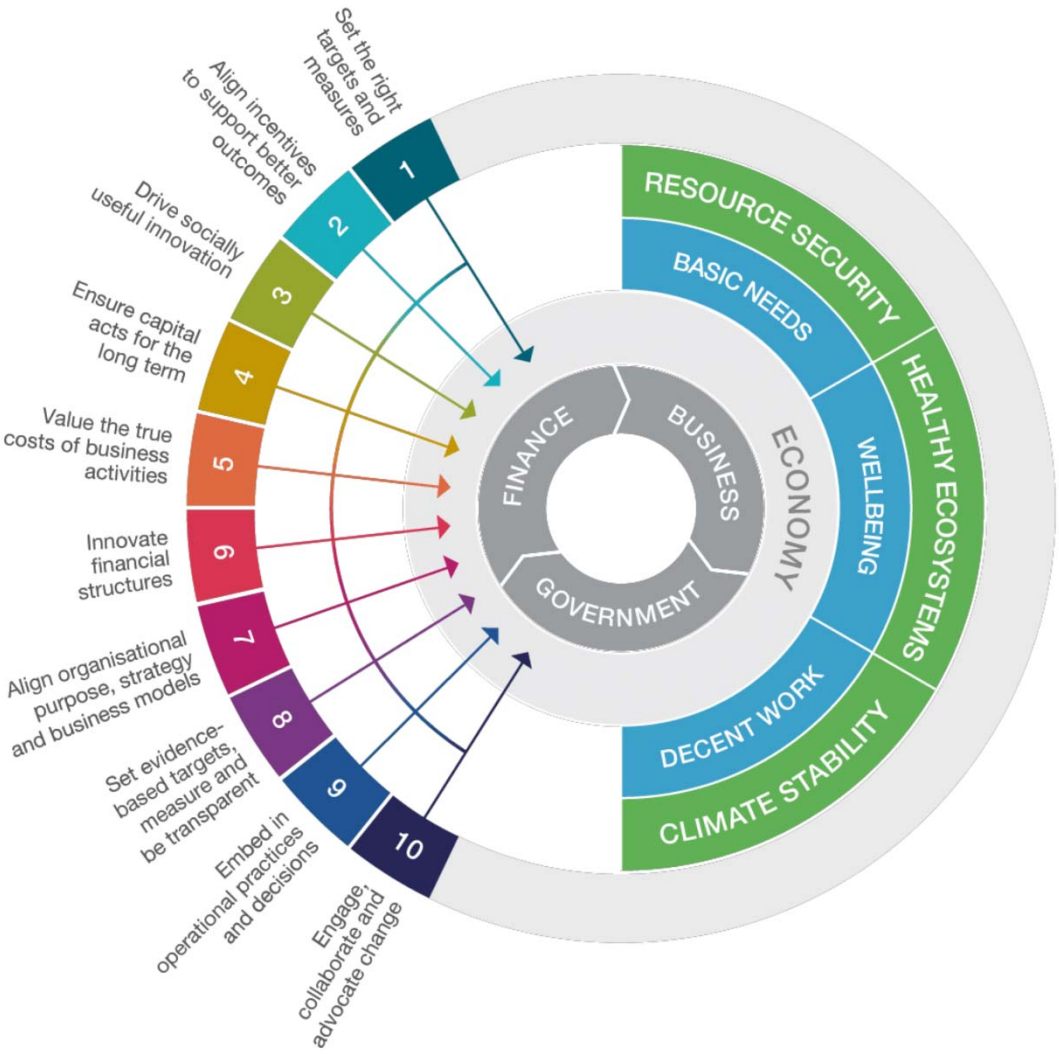
Typically in these cases process indicators – how many customers have we contacted about our vulnerability tariffs, how is our organisation redesign progressing – will offer an earlier, but flawed, guide. Waiting for customer satisfaction scores or staff engaging scores to change may take years.

In terms of the use of sustainability metrics and strategy, the cycle of change is a familiar concept to most businesses. But supposing a utility company wishes to implement, or quite radically reappraise an existing purposive vision and strategy.

In designing a strategy we would suggest that high level baseline information about the companies' footprint in key areas is an invaluable tool. The UNSDG framework, has proved to be a good way of assessing and presenting company impacts in all the main areas of sustainability. The strategy can then narrow down its main focuses.

At strategy launch and communication, and the immediate aftermath it is important to be able to show current performance and commit to track future performance. At this point amending annual reports and account to a more purposive presentation and the tools available to do that need to be brought in. And external facing metrics need to be set down.

In implementing strategy the focus turns to operational metrics – how are we doing on key issues and what are the detailed sub metrics and business unit metrics we need to really track and drive change. Metrics will also be needed for any reward element to the new vision. Finally, and perhaps most importantly, metrics will be needed to track cultural change.



Source: Cambridge Institute for Sustainability Leadership, The model: ten interconnected tasks

Annex 5: The Social Metrics Commission

The Social Metrics Commission, albeit looking at national poverty rather than utility customers, separates analysis of poverty into the following categories. This may provide a useful framework for utility companies thinking about the development of their social metrics.

1.1 Estimated number and percentage of people in poverty by age

1.2 Estimated number and percentage of people in poverty by family type

1.3 Estimated number and percentage of people in poverty by whether the family includes a disabled adult or child

1.4 Estimated number and percentage of people in poverty by family work status

1.5 Estimated number and percentage of people in poverty by housing tenure

1.6 Estimated number and percentage of people in poverty by ethnic group of household head

1.7 Estimated number and percentage of people in poverty by country and age

1.8 Estimated number and percentage of people in poverty by region

2.1 Estimated number and percentage of people at different distances below the poverty line

2.2 Estimated number and percentage of people at different distances above the poverty line

2.3 Estimated percentage of people in persistent poverty by age and a range of family characteristics

2.4 Lived Experience Indicators (grouped under: health, labour market access, family/relationships, and family finances) by poverty status

2.5 Survey years for Lived Experience Indicators

3.1 Estimated number and percentage of working-age adults in poverty by various family characteristics

3.2 Estimated number and percentage of children in poverty by various family characteristics

3.3 Estimated number and percentage of pension-age adults in poverty by various family characteristics

3.4 Estimated number and percentage of people in poverty by age group

3.5 Estimated number and percentage of people in poverty by gender and adulthood

3.6 Estimated number and percentage of people in poverty by whether the individual has a disability

https://socialmetricscommission.org.uk/wp-content/uploads/2019/07/SMC_results-tables-201908.pdf

About Sustainability First

Sustainability First is a think tank and charity that promotes practical, sustainable solutions to improve environmental, economic and social well-being. We are a trusted convenor on public utility issues and have a strong track record of bringing stakeholders together in multiparty projects in the public interest.

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