Sustainability first

Viewpoint

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

A question of principle?

Economic policy makers and regulators need to adopt a set of sustainability principles if we are to survive and thrive in the disrupted world

Environmental, social and economic interactions

Covid-19 has exposed the fragile human-environment interactions which are frequently obscured by much of modern life. A zoonotic disease, it has made us more aware that we are part of nature – not separate from it – and that our actions can contribute to destroying the natural eco-systems that we rely on.

Although the 'Blue Planet' effect and specific conservation campaigns have galvanised many, these issues have until recently somehow remained in a parallel world to mainstream economic thinking. The **pandemic** is changing this. Locally, lockdowns have enabled many to reconnect with their natural environment. They have illustrated the importance of good quality local green spaces for our own mental and physical health.

Stepping back, whilst research on the causes of Covid-19 and its successors will continue for decades, we are already learning how insensitive human encroachment on **natural habitats and species** can damage the planet's life support systems at our peril. With The Living Planet Report 2020 identifying a 68% decline in global wildlife populations since 1970, it is clear that current rates of loss are unsustainable and pose a real risk to our economies and way of life. Although the biodiversity pledges made by world leaders in September to restore to nature 30% of land by 2030 are welcome, significant changes will be needed if these are to be delivered.

Covid-19 and the extinction crises are clearly not alone in making us reassess the relationship between nature and humanity. Before the pandemic struck, concerns around **climate change** had risen rapidly in the public consciousness, particularly amongst young people.

"Covid is a wake-up call that we are part of the natural world – and have much to learn"

Awareness that carbon emissions have real world impacts on people as well as planet was increasing, with the UK floods in February 2020 making this tangible in a very real way at home. These, and the fires in Australia and California, have provided a stark signal that in this decade of disruption there is much at stake. These are clearly no longer 'one-off' events.

This summer a YouGov poll found that 'Covid-19 has not kicked environmental issues into the long grass' – with a quarter of the population saying that the environment is one of the most important issues facing the country. However, with not everyone on the same page, we are still not properly listening, as many young people consistently – and rightly – tell us.

Despite ongoing work on things like natural capital accounting, the way we frame many decisions in key sectors of the economy has yet to fully catch up. Significant work from the Taskforce on Climate Related Financial Disclosures (TCFD), which is shaping activity in the run up to the UN Climate Change Conference (COP26), and the Dasgupta Independent Review of the Economics of Biodiversity, that will feed into the UN Convention on Biological Diversity (COP15), is starting to change thinking. However, **these processes take time and can seem remote from every-day lives**.

Developing **a coherent approach** – where the environment is seen in its totality covering climate, biodiversity, adaptation and other factors - is also a challenge. This is important as these different issues are frequently linked. Climate change can lead to biodiversity loss, and vice versa. And some species adapt better to changing environments than others.

Increasing interest in 'Environmental, Social and Governance' ('ESG') factors in the investment community is helping to drive change in the way the financial system thinks - particularly about carbon. Witness BlackRock CEO Larry Fink's March 2020 letter that recognises 'climate risk is investment risk.'

Clearly positive initiatives such as this, whilst warmly welcome, need to be aligned and woven together with work to preserve wider environmental health. And, crucially, the connections between environmental and public health, and social and economic wellbeing, need to be made clearer. Balancing the delivery of outcomes

in these different areas is key to achieving a sustainable future and building the public acceptability of change.

Implications for economic policy and regulation

In the meantime, the policy and regulatory **cultures and frameworks** in which Sustainability First has a long-standing interest and that shape many of the key economic building blocks of society – such as our energy, water, communications and transport systems – whilst also starting to change, are still predominantly focused on protecting **today's 'average' consumer**.

Whilst it is great that there are now more people with 'customer' experience on regulatory (and company) boards, until there are more **board members** who really 'get' the environment, on some boards changing cultures may be difficult.

Policy and regulatory frameworks are yet to seriously tackle **long-term eco-system breakdown**. Or to systematically link the **lived experience of the consumers, citizens and communities** that don't have access to healthy local green spaces, or may already be experiencing climate impacts, into their work. The experiences of those whose lives fall outside the average are often overlooked. With one in eight British households not having a garden, for example, this can be a significant chunk of the population. And as housing design, the planning system and building regulations are still largely catering for today's issues, these problems can often be exacerbated further.

Given the **affordability challenges** being faced in so many homes and businesses across the country as a result of Covid-19, a short-term focus on today's consumers is in many ways understandable. However, unless we learn the environmental, economic and social lessons from the pandemic, as well as those for public health, there is a real risk that a 'build back better' recovery will still not be truly sustainable. The wellbeing of our citizens and communities will still be threatened by increasingly disrupted ecosystems and extreme, dangerous and unpredictable weather. When the effective functioning of society and our individual and collective livelihoods are at stake, short-term consumer interests must surely be more clearly balanced by measures to secure the wellbeing of future generations.

What can be done? At the start of the pandemic, Sustainability First launched an Art and Essay Prize aimed at students, early stage researchers and creatives to ask for visions and ideas in response to the question '*How do we build from the corona crisis toward a sustainable future?*' The themes from the over 1,200 entries that we received from the young people and artists who entered our competitions are summarised in our new Virtual Book. There was a clear expectation from our entrants that we need to see fundamental changes to existing government policy, regulatory and institutional arrangements to build a more sustainable future.

As decision makers try and grapple with this challenging landscape, ensuring that we collectively alter the manner in which we judge economic decisions for a genuinely sustainable future is critical. Revisions to the way in which **we measure and give weight to wellbeing**, account the value of the natural and socially connected worlds around us (such as 'six capitals' and integrated reporting), and the techniques and approaches that we use to assess investments are all of the highest importance. Our recent Sustainability Metrics in Public Utilities Discussion Paper examines some of these issues, and explores the challenge of how to measure the cultural change that is also crucially needed.

But given the fast moving and dynamic environment, and the fact that change is not always linear, getting this right is challenging. And **institutional and cultural change can take just too long.**

Deciding **who should lead on what** – government, regulators, companies, civil society groups and individuals - can be difficult at the best of times. In a crisis, where the to do list grows by the day and implementation is in the spotlight, it is even harder.

Waiting it out for stability and clarity may just exacerbate all of these problems – and potentially severely reduce optionality if natural systems are pushed beyond their brink and tipping points. And it looks like **complexity and disruption are here to stay**.

Whilst measurements, methodologies and appraisal techniques are being revised to take account of these increasingly unavoidable environmental and social outcomes, we observe a process whereby the institutional tectonic plates and associated roles and responsibilities are only slowly beginning to move. And this at a time when many, such as Christiana Figueres

in *The Future we Choose*, consider we are living in the 'decisive decade' for tackling climate change. So what can policy makers and regulators do to speed the changes needed to secure a truly sustainable future while the clock ticks?

Sustainability principles for economic decisions

Ensuring everyone is aligned on the fundamental principles that should underpin all economic decision-making is an important first step. This is fundamental in getting the relationship between independent economic regulators and policy makers 'right' when things are moving quickly, government bandwidth is limited and the temptation towards 'present bias' is strong. And it can also play a key role in changing policy and regulatory cultures - and setting expectations for corporate behaviour.

> "We need to change our cultures, institutions, systems and how we measure wellbeing – but this takes time. A sustainability principles-based approach is needed now to help us navigate a deeply uncertain future whilst the clock is ticking"

Principles are of course not new to regulation. On one level, it is difficult to argue with many of the existing Principles of Economic Regulation that have been widely used in the UK. In many ways, these have stood us in good stead. Accountability, predictability, coherence with the broader policy context and adaptability are all clearly vital for ensuring regulatory decisions help deliver public value. Yet the principles of economic regulation that have received the most attention in practice, namely a focus on ensuring the operation of well-functioning markets and efficiency, are sometimes interpreted in such a narrow and short-term way that they can exacerbate the destruction of natural life support functions and increase overall inequality, particularly between generations.

There is much that economic decision-makers can learn from the natural world, and environmental legislation, here. Conservationists and ecologists will have their own ideas about what are the most important principles that might be read across from the environment to economics.

To start the debate, here is a possible set of sustainability principles to help guide decision-making as we move through the corona crisis and navigate towards a more resilient future. These principles are primarily designed to help the economic policy makers and regulators whose work shapes the key building blocks of the economy, such as public utilities and other essential services, but they clearly have wider applicability:

- ***Give appropriate weight to the wellbeing of the next generation*** – crucial for the survival of all species, and top of the list. In economic terms, this means paying due regard to long-term interests, recognising resilience, being transparent about trade-offs and understanding the value of things, not just the cost. Morally, we have a duty to ensure we are not comprehensively making it impossible for future generations to survive with confidence and health. Sustaining natural life support systems such that they continue to function effectively into the future is a pre-condition for this. Without them, humanity is lost.

- ***The precautionary principle and duties of care*** – this means caution when faced with innovations that have the potential to cause harm when there is major uncertainty/ lack of scientific knowledge. Widely used in environmental frameworks, this should be enshrined as a duty of environmental *and* social care in all decision making. It is the key to avoiding dependency on activities and unnatural substances that permanently disadvantage all future life. The means of implementation, cost and value must be understood to put this into practice.

- ***The lived experience*** - this entails understanding the importance of different life-stages and how the communities that we are part of provide a crucial context, and rich contribution to, our lives. This principle requires a greater focus on implementation and an inter-disciplinary approach that moves beyond seeing people as homogenous 'average consumers' and is more in tune with the varied needs of citizens and the rhythms of life.

- ***Systems and 'joined-up' thinking*** – at an eco-systems level, the Covid-19 experience has constantly demonstrated the disruptive effects of non-systems approaches to connected decision making. For society, siloed thinking in government departments and sector regulators means they can struggle to deal with this complexity. This principle therefore requires policy makers and regulators to

focus on desired outcomes for environmental and social systems and understand and act on boundary issues and interdependencies through identifying common ground and developing more integrated approaches to delivery.

- ***Symbiosis and collaboration*** - while competition is important to encourage progressive change, and is a feature of evolution, so too is collaboration to deliver mutual interests. Biologists are uncovering many evolutionary examples of symbiosis; between fungi and trees, bacteria and mammals, and corals and fish to name but a few. Decision makers need to give more thought to how to create the right conditions for partnership working to thrive and the governance processes needed to ensure fair sharing of risk and reward, the delivery of multiple 'co-benefits' and co-creation.

- ***Recognise that change is constant and adaptation crucial*** – recent moves towards adaptive policy and regulation are warmly welcome. As we will always struggle with feast, famine, droughts and floods, some redundancy in the system is needed to help us adapt to extremes and cope with new challenges. All this requires judgement, hard work, patience and practice. Innovation is of course essential, but it needs to be integral to policy and regulatory thinking, not a bolt on activity.

- ***Diversification and participation***- nature teaches us that diversity is a source of strength. Applying this in practice to economic thinking from the top of government down to local communities, and from policy makers to regulatory and corporate boards, is key to provide the flexibility needed to deal with change. Diversity is crucial not just in terms of the composition of governance bodies (characteristics, backgrounds, skills, disciplines, ways of thinking etc) but also in terms of approaches. For this to be meaningful, it requires stakeholder engagement and participation and taking account of a range of perspectives, including at the local, regional and devolved levels. Absent this, navigating uncertainty is far more challenging and changing cultures more difficult.

- ***Circularity*** – nature is the great recycler and nothing is wasted. Policy makers and regulators need to consider how their decisions can help design in circular and zero waste/emissions solutions. And crucially, how to recycle learning; how to honestly learn the lessons from what works and what doesn't. This is the great test of any post Covid-19 economy. Right now, we are nowhere near circularity.

The role of principles

Principles can help shape long-run underlying values and norms. They can help develop a consensus view as to what policy and regulation should be seeking to achieve and send strong signals to regulated firms about expected behaviours. In some cases, principles may be embedded in legislation. For example, the first principle is fundamental to the Well-being of Future Generations (Wales) Act 2015, the precautionary principle is included in the 2019-21 Environment Bill, and collaboration / adaptive management are part of the Sustainable Management of Natural Resources and the Environment (Wales) Act 2016. In other cases, principles may be more of a philosophy or way of interpreting some of the higher-level regulatory objectives. If, to help ensure flexibility, we are to move from prescriptive to principles-based regulation, getting agreement on the desired principles is essential.

Fundamental changes to policy, regulatory and corporate cultures, frameworks and institutions are essential to ensure a more sustainable and resilient future for people and planet. But let's start by not wasting this crisis by ignoring some of the lessons that are right in front of us. Lessons abound from the natural world about how to survive and indeed flourish when the going gets tough. Fashioning and adopting a new set of sustainability principles in economic policy and regulation would be a good place to start. Such principles must be collectively created and supported. The evidence from Sustainability First's recent competition entries is that there is a real appetite to do so. We need to redefine what is acceptable / not acceptable practice and thinking if we are to survive and thrive in the disrupted world. Sustainability principles can help us do just this.

"The pandemic is a dress rehearsal for climate change and species extinction. We mustn't waste the crisis by ignoring the lessons right in front of us. Adopting a new set of sustainability principles can provide a positive bridge to a more hopeful future"

Sharon Darcy, Director, Sustainability First