



## **Sustainability Principles in Essential Services: High level roundtable February 24<sup>th</sup> 2022**

Decision makers in essential services such as energy, water, and comms, are placing increasing emphasis on the importance of sustainability. However, many policy makers, regulators and companies are struggling with how to balance short and long-term interests and social, economic, and environmental goals.

We held a small high-level roundtable in February 2022, exploring two vital questions:

- a) Why is a principles-based approach to change important in these sectors?**
- b) How can principles be used to support the change in behaviours and cultures taking place and embed a more sustainable approach in public utilities?**

### **Synopsis**

*Mission-led organisations with a clear sense of will, direction and purpose may be better placed to deliver sustainable outcomes. Getting the right governance in place to enable sustainable approaches is crucial. To be meaningful, this necessitates engaging and empowering young people, workers, the supply chain and wider citizen and community stakeholders – and ensuring these diverse voices for the long-term are round the table. Partnerships and collaborations can help build and cement relationships. Large organisations pro-actively seeking out smaller ones (e.g. through secondments) can bring fresh insights and help change culture in incumbents.*

*There are many opportunities to be had in the shift to sustainability. The energy from young people and the creativity unleashed by innovation for the public good can be transformative. However, this will only happen if there is transparency. Principles can help bring simplicity to a complex world. New stories and compelling narratives are needed to put these into practice. But principles also need bite and need to be enshrined in second level legislation and in accountability mechanisms. Leaders on all sides need to be clearer about what their roles are and to focus on these. Although politics can trump everything, if government sets frameworks of principles these can serve as a tool to enable transformative change for sustainability.*

### **Context – and why a principles-based approach is needed**

COP26 has brought home the sense of urgency of climate change and the role of nature. Both the water and energy sector have been caught out by various factors some of which are external (flooding, price rises, sewage pollution etc) and the pressure of public opinion is mounting. We are at a genuine pivotal moment. We need a sustainable basis for long term performance and credibility, as well as a suitable legislative framework.

Covid, Brexit and Russia have exposed the fragilities in the current system. Policy and regulation have traditionally been too narrowly framed and mindsets are hard to shift. Balancing short term affordability concerns and the long term needs of people and nature is a challenge. Principles can be a practical decision-making aid and help in uncertain times, when things are changing fast and compliance alone is insufficient.

**Overall themes raised in discussion****Mission**

- The narrower or clearer the mission of an organisation, the easier it can be to apply principles.
- If an organisation's mission is Net Zero, for example, this can help set clear aims and criteria.
- Even institutions with a very clear mission, however, can face challenges if there are multiple organisations, multiple internal stakeholders, and different decision making bodies within.
- Need to give people agency so they are involved in putting the mission/purpose into practice.
- Synod means walking together and is about building support in hearts and minds for a mission.
- To address sustainability the remit for any firm must be wider than profit or margin. This can help companies expand their mission in a positive, creative and valuable way.

**Language and definitions**

- What does the common good broadly mean and what is an essential or public service? Is this the same as a public good? The latter could be framed as a human right or necessity, which could influence which principles are used when making decisions.
- What we focus on in essence reflects what sort of society we want to create. Principles could be based on a shared understanding of what we are seeking.
- Sustainability must be seen as a whole (economic/environmental/ social). Net zero will involve some job losses (e.g. cement, coal, steel). One outcome principle should be sustainable employment, and jobs which provide for a decent quality of life.

**Engagement, involving people in change and just transition**

- Hearing different views, from diverse backgrounds and across the generations, is vital to have a holistic and richer picture of what is needed and reflect different perceptions of risk and opportunity.
- The average age of employees in KPMG is 26years – that generation has a different mindset about how to make decisions and choices. Young people could be far more involved in decision making and can be engaged in shadow boards. They are often highly principled and not tolerant.
- The Young Christians Climate Network are challenging the CoE and the Church Commissioners around engagement with the climate emergency including on investments.
- Intergenerational equity could be applied as a principle.
- Before engagement we need stories; overarching stories and smaller stories to feed into this.

*“There is a disproportionate focus (in utilities) on physical assets not the people who work for organisations.”*

- Workers and their unions must be engaged within the workplace and collaborate together to deliver sustainable outcomes (e.g. Cleaner greener working practices at Royal Mail, The Communication Workers Union working with local clean air groups etc). Research from Britain Thinks showed that 9/10 employees support the transition to a green economy, but only 1 in 8 have been given a chance to contribute, and the lower paid the job the less employees feel they have been engaged.

- Social partnership and dialogue, a shared commitment to good quality jobs and giving workers a seat at the table, at sectoral and industry levels, could help (as with the Government's independent Green Jobs Task Force).
- Germany and Spain are good examples of where workers' councils are written into corporate governance and keep a check on decisions and are widely accepted culturally. Former PM Teresa May's idea of workers on boards could work and make decisions inclusive.
- We haven't had the right people around the table and those currently on boards haven't been tested (or rewarded) for addressing sustainability issues.
- We need simple guidelines on how to engage the workforce, use collective bargaining, how to make the net zero transition, and provide support and training for new skills.
- The voice of change is important. Change must happen *with* people not *to* them.
- A just transition must minimise the pain of change.

### **Complexity versus simplicity**

- The UN Sustainable Development Goals are very broad. If you try to apply all of these, you wouldn't do anything.
- The simpler the set of principles the easier to implement but this has to be balanced with enough subtlety to reflect different issues.
- Most organisations don't thrive on complexity. Make principles clear and smart.

### **Accountability and transparency**

- Disclosure is critically important. We need to shine a light on behaviour and the difference between greenwash and genuine change (e.g. via TCFD). The more we know the more we can shape change.

*"Scrutiny can be transformational....without a credible transition plan you won't be able to raise money"*

### **Legislative and regulatory frameworks**

- UK regulation is notably outdated and often inflexible; serious work is needed to make regulators more dynamic and able to deal with current issues.
- Existing framings which focus on cost and efficiency can't cope with the pace of change.
- This in part may be a reflection that the people working in regulators may be of an age and outlook that doesn't seek or want change. There was a consensus round the table that a radical shift is required to make regulators fit for purpose, and for regulation to match intentions.
- Regulation is overly focussed on process, and a fixation on compliance.
- One of the criticisms of the regulatory framework and current system is a lack of acceptance of trial and error. The energy system overall is seen as slow to change with many players highly risk-averse.
- Firms and regulators have been caught out not being ready for change.

*"Unlearning is important, ways of operating are not sufficiently adapted for crisis."*

- The secondary legislation on the Climate Change Act has not all been implemented and a question remains as to how to make this enduring. And for economic regulation in energy, the Strategy and Policy Statement is in secondary legislation that has not yet been taken through.

- Efforts to introduce a ‘purpose’ principle to put around The Environment Act 2021, as to what the purpose of the Act was, failed. This was a missed opportunity.
- Principles must be enshrined in secondary legislation and in other second level mechanisms.
- Need for an expert external body for future energy systems. MPs want to meddle in regulators’ affairs when things go wrong. If we don’t have expert external bodies we risk lurching from crisis to crisis.
- Principles need bite. However, they shouldn’t be prescriptive but influence decisions.
- The Wellbeing of Future Generations (Wales) Act is a good example of what can be done. A clear principle and a strong, engaging story. England has an equivalent Private Members’ Bill.

### **Collaboration**

- Working with other organisations and proxies can be a way to achieve change.
- Often effective levers for change are external (carbon pricing, natural capital, supply chain etc).
- There is mileage for large and small organisations to work together – it can reduce costs and expand networks, but in practice it is rare. Small organisations can help incumbents and large organisations to change through secondments, partnerships etc.
- The focus on scope 3 is taking some big companies in the direction of assisting smaller companies in their supply chains.

### **Trade-offs**

- There were different views about trade-offs: whether these were a distraction and concern that a focus on trade-offs can lead to tokenism.
- Some thought that assumptions about trade-offs and choices need to be challenged – these are myths that have become seen as fact.

### **The role (or challenge) of politics**

- Concern that the parliamentary system and cycle of elections thwarts progress in essential services because new governments reframe the questions/problems.
- Also MPs avoid specifics related to Net Zero (i.e. when whole sectors need to change or be phased out for environmental/other reasons the issue of employment is often side stepped).
- While the Climate Change Act 2008 is enshrined in law in practice it doesn’t have leverage across legislation to support its aims.
- Politicians often tend to have the “last word” in decisions.
- Government should arguably be more of an enabler and focus on clear aims.

### **Leadership for sustainability**

- Culture can be set from the top as a mark of leadership.
- With clear positive and determined leadership based on Sustainability Principles a workforce can be galvanised to achieve more than was thought possible.
- Acceptance that sustainability is not a fixed end but a process. Iteration is critical as is the willingness to make mistakes and be open.
- The scale of climate change means we need bold thinking, anything is possible with the right attitude.

*“To be a change focused organisation you need to iterate. You won’t get it right first time”*

### **Specific issues in utilities**

- Retail energy markets need significant reform.

- We do not have sustainable principles for oil and gas beyond leaving it underground from the IEA. We are missing a statement in principle about the energy transition. What does it mean for North Sea oilfields, beyond electrification and an end to flaring?
- Need for an external future energy systems specialist institution.
- Business to Business (B2B) firms have less incentive to be sustainable than B2C firms (possibly from lack of consumer pressure and visibility)
- We need to explore different models and how we deliver public goods beyond 'Private sector good, public sector bad' or vice versa. As the wider context has changed, how public goods operate is different - the energy sector is very different to ten years ago.

*"We need innovation in how we deliver public goods"*

- We cannot avoid using these services so how they are paid for (taxation or otherwise) is of relevance to all.
- The Ofwat approach was to push private water and waste firms to take a "public purpose company" approach.

#### **Further Reading**

[https://www.sustainabilityfirst.org.uk/images/Culture\\_briefing\\_formatted\\_FINAL\\_22\\_02\\_22.pdf](https://www.sustainabilityfirst.org.uk/images/Culture_briefing_formatted_FINAL_22_02_22.pdf)

<https://www.sustainabilityfirst.org.uk/blog/287-a-framework-for-considering-fairness-between-generations>