WPD Consumer Engagement Group

Delivering a Social Contract

Sharon Darcy, Director, Sustainability First

29th April 2019
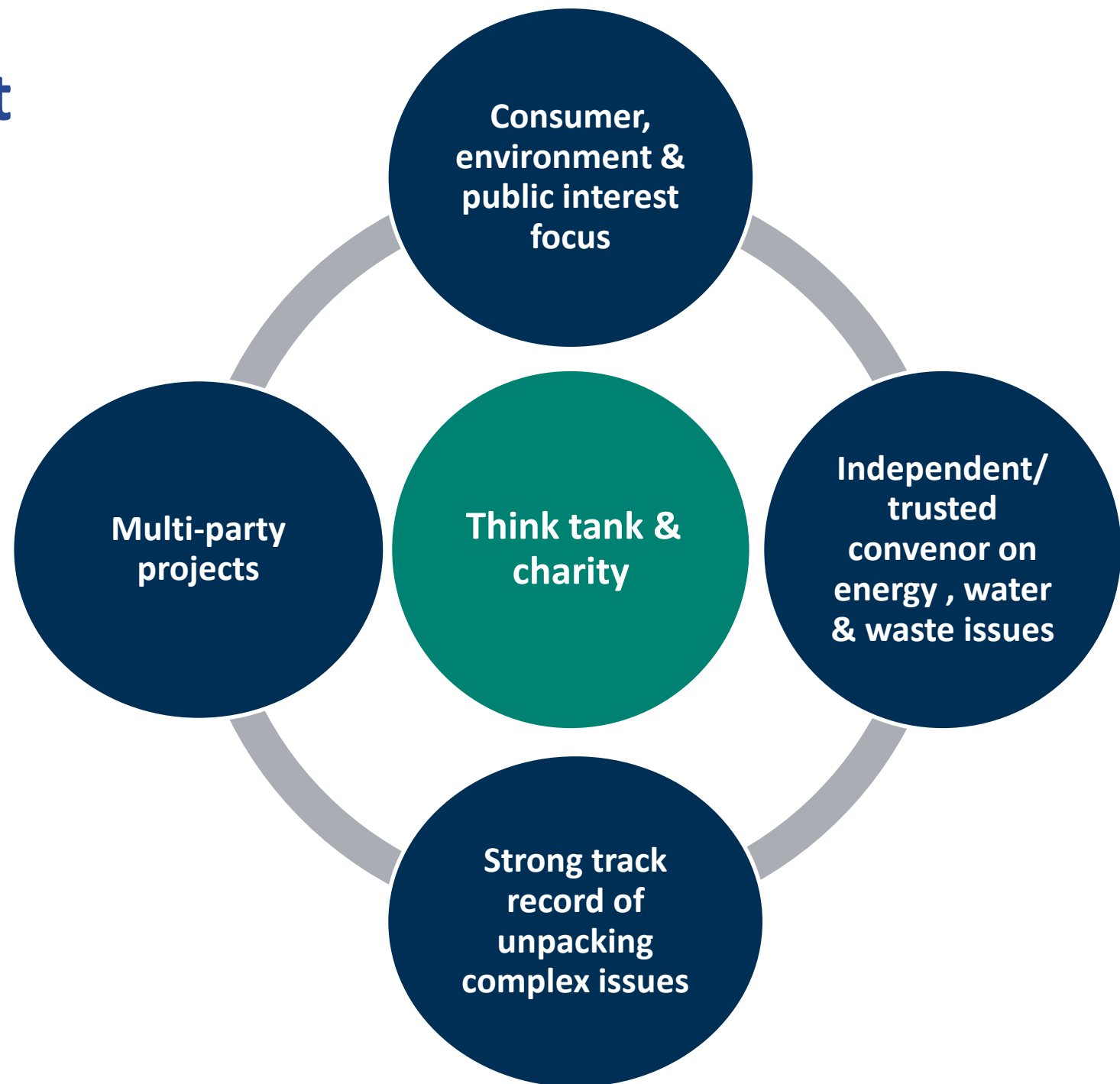
www.sustainabilityfirst.org.uk
@SustainFirst

Sustainability *first*

Sustainability First

Promoting practical, sustainable solutions to improve environmental, economic and social wellbeing since 2000

Consumer, environment & public interest focus

Independent/ trusted convenor on energy , water & waste issues

Think tank & charity

Multi-party projects

Strong track record of unpacking complex issues

Social Contracts: Passing Fad or Desire for Deeper Change?

Three Disruptors Reshaping our World

Some 'Social Contract' Responses to Date

Technological change

- Reframe the big picture - UN Sustainable Development Goals

- Facilitate responsible business – B Corp movement, Purposeful Company initiative, British Academy Future of the Corporation Programme etc

- Change ownership – Nationalisation, local / community approaches, 'patient' capital etc

- Redesign regulation - National Infrastructure Commission review, Regulators' Pioneer Fund…

- Sectoral initiatives – Water UK's Public Interest Commitment - for England only! (25.4.19)

There is a long history – Hobbes, Locke and Rousseau

- Intermittent renewables, storage, block-chain, AI, robotics etc for businesses

- Digitisation and personalisation for consumers

- As pace of change increases, so does regulatory lag

Environmental change

- Climate change
  - Scale and speed of mitigation response
  - Challenges to resilience

- Stewardship of natural resources

Societal change

- Inequality / Precariat

- Aging population (and workforce!)

- Lack of trust in institutions/the system (2008, Carillion)

- *'Public doubt whether markets work for their benefit'*

Fair for the Future Project – Overview

Project aims
- Help energy & water sectors to better address the **politics of fairness & the environment** & deliver public interest outcomes for **consumers, citizens and other stakeholders**
- Get companies & investors to **proactively address change** – in a way that is **agile** and not prescriptive (important given uncertainty and growing plurality of business models) and tailored to stakeholder needs
- Ensure company behaviour and activity is better aligned with the **direction of emerging government and regulatory policy**

Core group
- 10 energy & water companies (mainly networks in energy) plus Ofgem & Ofwat

Two project workstreams
- Developing a 'Sustainable Licence to Operate'
- Mapping political and regulatory risk and uncertainty as it relates to fairness and the environment to ensure this is sufficiently dynamic and nothing 'is left out'

Developing a 'Sustainable Licence to Operate'

- We are developing a common framework of good practice/standards that goes 'above and beyond' legal compliance and basic CSR
- In October we produced a *'Sustainable Licence to Operate' strawman*
- We are now testing this in workshops with stakeholders and against case studies from other sectors/overseas in an integrated and iterative way
- We are tracking what companies are doing to embed this thinking through '*Talk into action*' bilateral meetings. This will become a published evidence-base for change – good practice, barriers etc
- We are producing quarterly 'Fresh Insights on Purpose' updates to round-up latest research in this area
- In 2020 we will war-game our emerging findings
- Final outputs
    - A 'Sustainable Licence to Operate' *How to Guide* for the energy and water sectors
    - Report on implications for policy & regulatory frameworks – eg what will this mean for principles based / ethical regulation?

Pillars that make up a 'Sustainable Licence to Operate' in our strawman

Strawman 'Sustainable Licence to Operate'

Public purpose, philosophy & public service values

6th December 2018

Making best use of 'capital' : competition & collaboration

26th March 2019

Roles & responsibilities & expectations around fairness

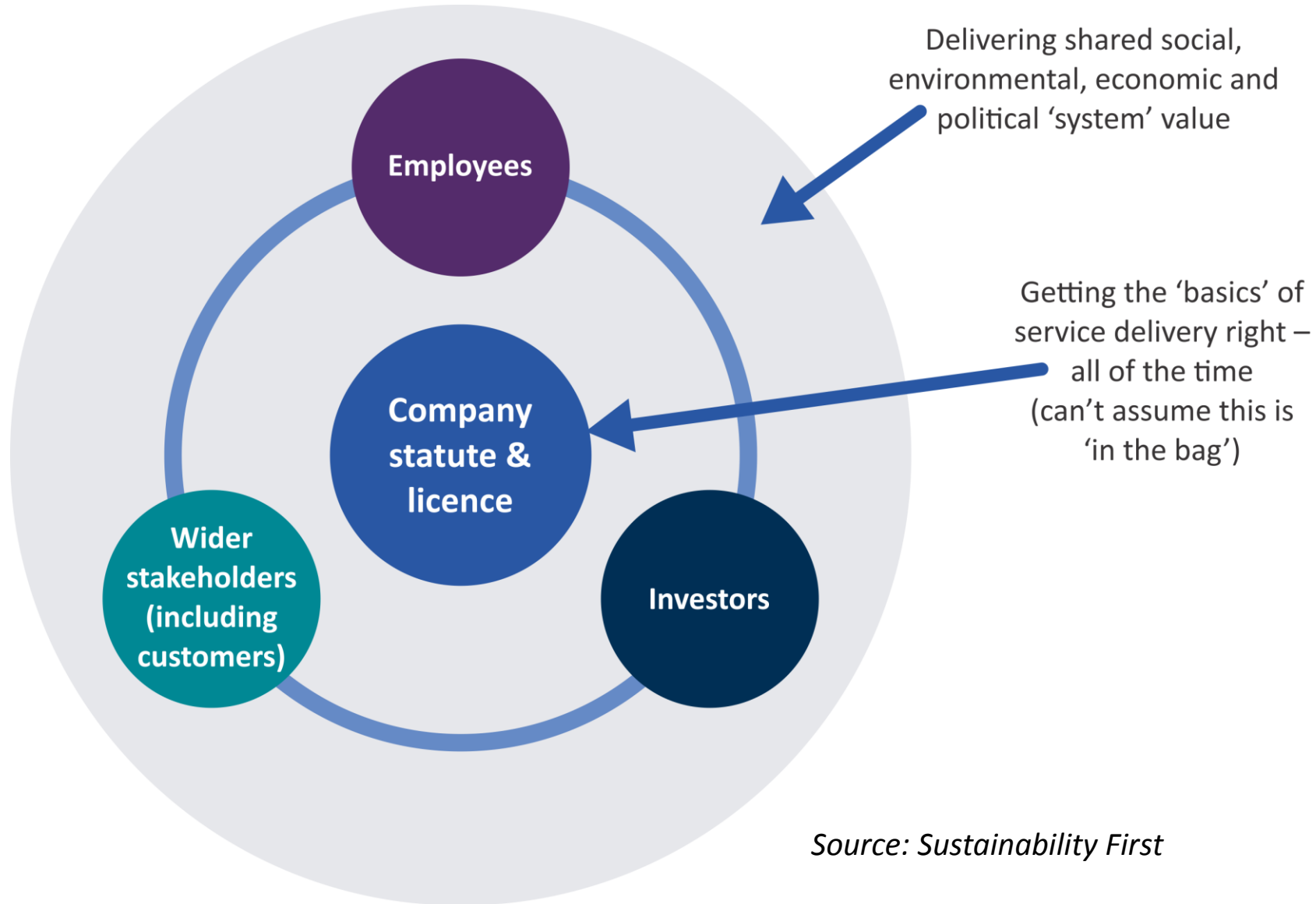**25th June 2019**

Strategy and narratives

19th November 2019

Ongoing stakeholder engagement and demonstration of delivery of public interest outcomes

Source: Sustainability First

6

Pillar 1: Public Purpose

Delivering shared social, environmental, economic and political 'system' value

Getting the 'basics' of service delivery right – all of the time (can't assume this is 'in the bag')

Employees

Company statute & licence

Wider stakeholders (including customers)

Investors

Source: Sustainability First

Pillar 1: Dimensions of Public Purpose

Weaker case for companies having a public purpose

Dimension of public purpose for essential energy/water service

Stronger case for companies having a clear public purpose

Competitive / contestable	**Market power**	Monopoly / concentrated
Limited and short term	**Investment requirements**	High and long-term
Limited / passive and focused on *individual* consumers	**Role of people**	Significant / active, including *collective* consumer / citizen role (demand reduction / response, prosumers, local / community schemes, response to shocks etc)
Discrete activities / few links	**Systems issues**	Technically*/ environmentally / climate / socially integrated / linked

Source: Sustainability First

Pillar 1: Shaping and Embedding Purpose - Values

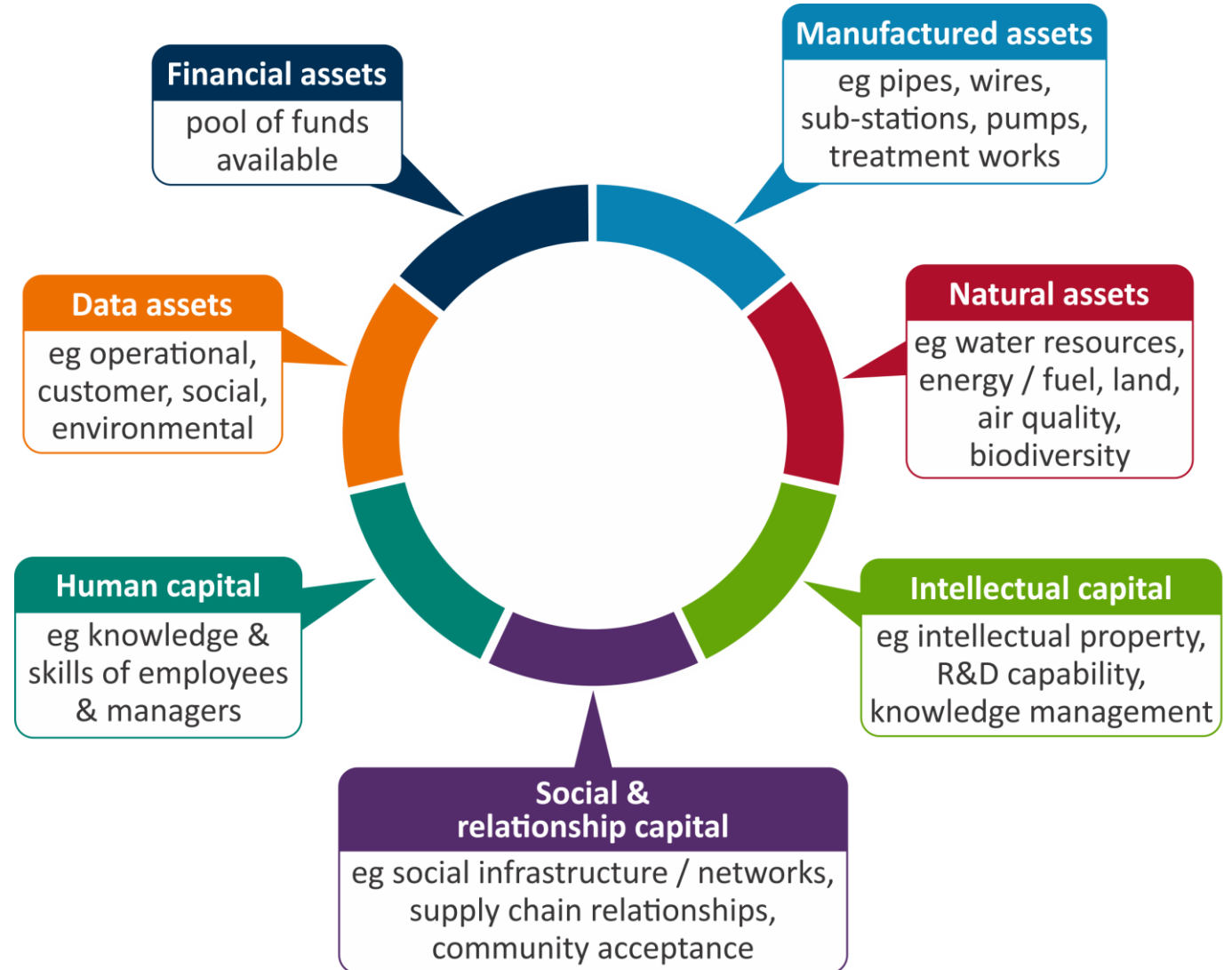Snapshot of current energy network and water company values from websites

Public service values could include:

- Accountability
- Respect and integrity
- Openness and honesty
- Objectivity and collaboration
- Leadership

Pillar 2: Making Best Use of 'Capital'

- **Completeness** : Do companies recognise the full range of the different types of capital that they have?

- **Gap analysis:** Are there any gaps in the different types of capital that companies have – or may need in the future – to deliver their public purpose and systems value?

- **Prioritisation:** How do companies prioritise the management of the different types of capital that they have?

- **Policy & regulation:** How far do these frameworks influence how companies balance and focus on different types of capital?

- **Measurement:** Are companies recording all of these different types of capital appropriately? How is this information shared – and who with?

Financial assets
pool of funds available

Manufactured assets
eg pipes, wires, sub-stations, pumps, treatment works

Data assets
eg operational, customer, social, environmental

Natural assets
eg water resources, energy / fuel, land, air quality, biodiversity

Human capital
eg knowledge & skills of employees & managers

Intellectual capital
eg intellectual property, R&D capability, knowledge management

Social & relationship capital
eg social infrastructure / networks, supply chain relationships, community acceptance

Source: Adapted from IIRC by Sustainability First

10

Pillar 2: Competition and Collaboration – Some Key Dimensions

Outcomes

Deliver on one outcome ←——————————————→ Deliver on/balance multiple outcomes

Beneficiaries

Optimising - for the individual consumer ←——————————————→ Co-benefits - for society/the wider 'system'

Time period for benefits realisation

Short-term ←——————————————→ Long-term

Activity

Replicable ←——————————————→ Monopoly/critical/'enabling' infrastructure

Pillar 3: What is Fairness?

Cumulative view of costs
- Fixed costs
- Variable costs
- Access Costs
- Natural capital costs
- Transition Costs etc

Cumulative view of impacts / outcomes on
- Consumers (I&C, domestic, consumers in vulnerable situations etc)
- Citizens / taxpayers
- Other stakeholders (the environment/nature etc)
- Communities / regions / nations

Distributional

Procedural

Fairness

Opportunity
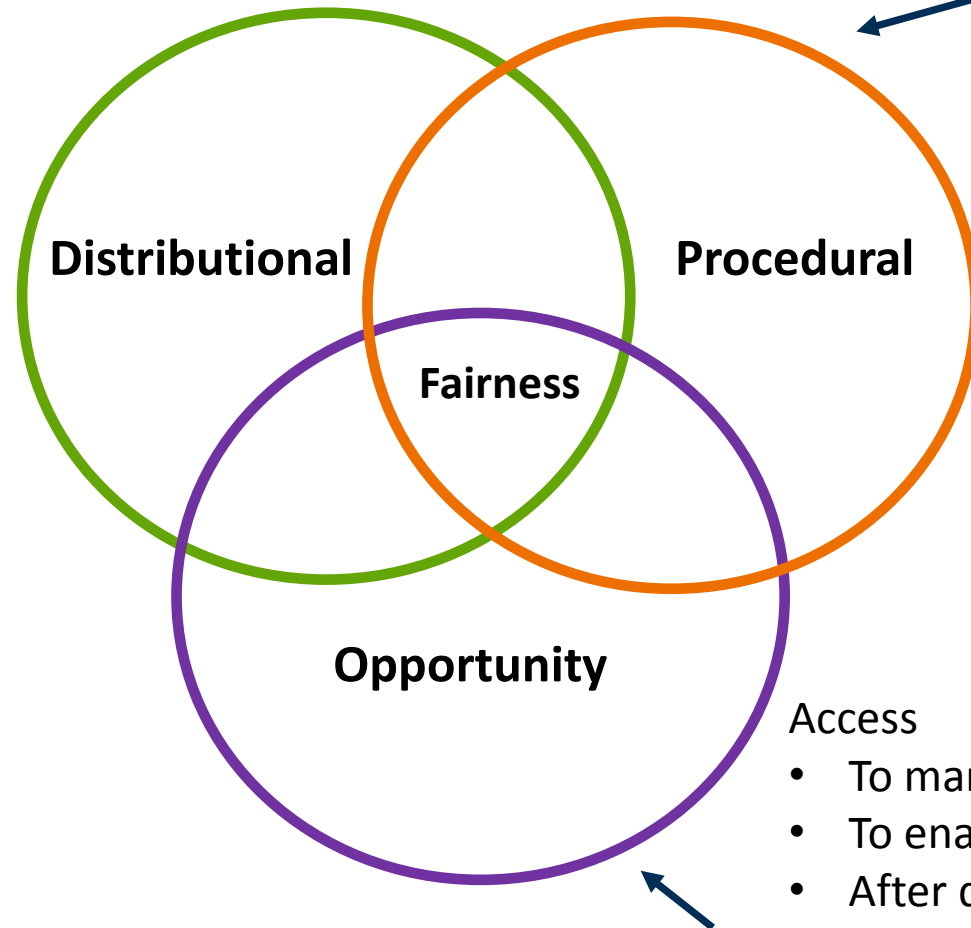
Consistency
- Electricity / gas / heat
- Over time – 'legitimate' expectations
- For 'similar' users

Transparency
- Who pays for what
- Trade-offs

Explanations
- Simplicity
- 'Context' aware'

Meaningful engagement

Access
- To markets
- To enabling technologies
- After disruption - response / recovery

Choice

Practicality

Voice / say (inclu. in trade-offs)

Pillar 3: Roles and Responsibilities in Terms of Fairness

Expectations on fairness are changing

- Changing nature of the state
- Being a 'good corporate citizen' / 'responsible business'
  - Taxation
  - Living Wage etc
- Move to service businesses
- Desire for greater control
- Shift from 'vulnerable people' 'dynamic vulnerability' to 'fairness for all
- Recognition consumer experience is
  - More fluid than previously understood
  - Cumulative – over time
  - Cross-sectoral
  - Is influenced by a range of enabling / disenabling factors

Some possible approaches

- A step change in engagement
  - What works in delivering *outcomes?*
  - Who should pay for what / trade offs
  - Values
  - Co-creation to innovate, test and learn
- Collaborations and partnerships
  - To bring in new skills, insights etc
  - To address boundary issues
  - Where scale / systems are important
- Financially supported innovation for people in vulnerable situations
- Joined up / cross-sectoral services
- Tailored communications
- Stakeholders holding companies to account on their commitments

13

Pillar 4: Strategy and Narratives

Traditional reporting arrangements	Current good practice reporting arrangements	Future reporting with a 'Sustainable Licence to Operate'
Closed / blame reporting culture	Open / honest reporting culture	Collaborative reporting culture
Detailed data heavy reports	Strategic narratives – by both companies and trade bodies	Coherent cross-sector narratives
Short-term internal data	Data / metrics developed following employee / external engagement	Metrics demonstrate how make best use of assets for the system
Backward looking	Forward looking	Strategic / long-term view
Silo based	Integrated in company	Integrated – cross sector
Measure 'things' / in-puts	Measure company outcomes, culture & behaviours	Measure full range of sector long-term public interest outcomes
Senior team invisible	Chair / CEO show personal commitment	Sector leaders show commitment - together
Self-selecting reporting	Use established frameworks / independent assurance / audits / certification	Learn from each others failures
Company based	Company based	Sector / systems based
Tailored / specific metrics	Consistent metrics	Comparable across sector
One size fits all publications	Publications tailored to target audiences	Publications help shape policy & regulation
Static / 'sit on shelf'	Iterated	Evaluated

Source: Sustainability First

Responsible Businesses Use Stakeholder Engagement to Help Balance These Challenges and Hold Companies to Account

Technological change

THE PEOPLE HAVE WOKEN

Societal change

DANGER DEEP WATER

Environmental & climate change

Thank you

For further information about the Fair for the Future project please contact

Sharon Darcy
Director
sharon.darcy@sustainabilityfirst.org.uk

Sustainability
first