Developing and Embedding a Sustainable Licence to Operate and a Purposeful Business Approach

A 'How-To' Guide for Public Utilities

Sustainability First

Fair for the Future Project

September 2020

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Preface

About Sustainability First

Sustainability First is a think-tank that promotes practical, sustainable solutions to improve environmental, economic, and social wellbeing. We are a registered charity that primarily works in the public utilities, and have a long, proven track record of delivering impactful projects that help shape policy, regulation, and company behaviour in the energy and water sectors.

The Fair for the Future Project

Sustainability First's major Fair for the Future Project, of which this 'How to Guide' is a key part, was set up in 2018 to help public utilities better address the politics of fairness and the environment. It seeks to help companies in the energy, water and communications sectors to demonstrate corporate leadership by 'doing the right thing' and to help ensure that policy and regulatory frameworks are fit for the future and enable a more purposeful business approach.

Our extensive project papers can be found here. To find out more about our research to date and next steps in this Project, please see Section 8 of this Guide.

Sustainability First's work on Covid-19

We have recently launched a new work programme in this area. This contains a number of interlinked workstreams, united by the aim to reconcile the focus on GDP with the need to secure economic, social, and environmental wellbeing in the round to ensure the sustainability of essential services and critical national infrastructure – such as energy, water and communications.

We have just published a Virtual Book Building from the corona crisis towards a sustainable future which draws on the over 1,200 entries to our recent Art and Essay Competitions on this topic. These invited original, radical ideas and visions from students, early-career researchers, and artists on Building Back Better from the pandemic. We are also publishing a series of personal perspectives from high profile sustainability specialists on ensuring a smart, fair, green recovery, and have published a briefing for boards and executive teams on dealing with risk and uncertainty during the pandemic.

This Guide

This Guide has been written by Sustainability First Research Officer Kieran Dodds with the assistance of Associate Martin Hurst and Director Sharon Darcy. It should be noted that editorial responsibility for The Guide rests solely with Sustainability First.

For more information about the Fair for the Future Project or Sustainability First's wider work, please do feel free to get in touch.

Acknowledgements

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We would particularly like to thank the organisations that have shared their case studies and examples of good practice for this Guide, including Manchester Airports Group, The Thriving Communities Partnership, Peabody and Nest.

Executive Summary and Overview of Recommendations

Executive Summary

This Guide is aimed at UK regulated public utility providers that want to adopt a public purpose approach in their business: an approach that recognises and places the needs of people and planet before short-term profit, and which ensures sustainable well-being – economic, environmental, and social – is embedded within the business's core functions.

Sustainability First has called this a **'Sustainable Licence to Operate'**. However, this is only one term to capture a range of similar concepts. A utility may equally define their approach as being a 'purposeful' company or 'responsible business'. What these terms have in common is a recognition that as businesses using private capital to provide public value, on the basis of often long-term and predominantly monopolistic assets, utilities have a duty to embed sustainability in its widest sense.

We live in a period of significant **disruption**. The world is radically changing. Utilities need a clear long-term vision and, working with staff and stakeholders, to develop their resilience if they are to navigate the deep uncertainty that we now face. The drivers for this range from Covid-19, the climate crisis and awareness of wider environmental issues to a step-change in both public and political expectations around social issues. Wider political thinking about the nature of modern capitalism is now increasingly also reflected in pressure from long term investors.

Most utility companies are aware of this changing landscape and have been moving in the direction of becoming more purposeful businesses for some time. However, **the ground has now significantly shifted, the expectations on them have increased and the bar has unquestionably risen. The changing context is leading to new perspectives in terms of what is fair.** Even companies which would have considered themselves to have genuinely embedded sustainability and public purpose a few years ago are now often some way behind what many people expect of them.

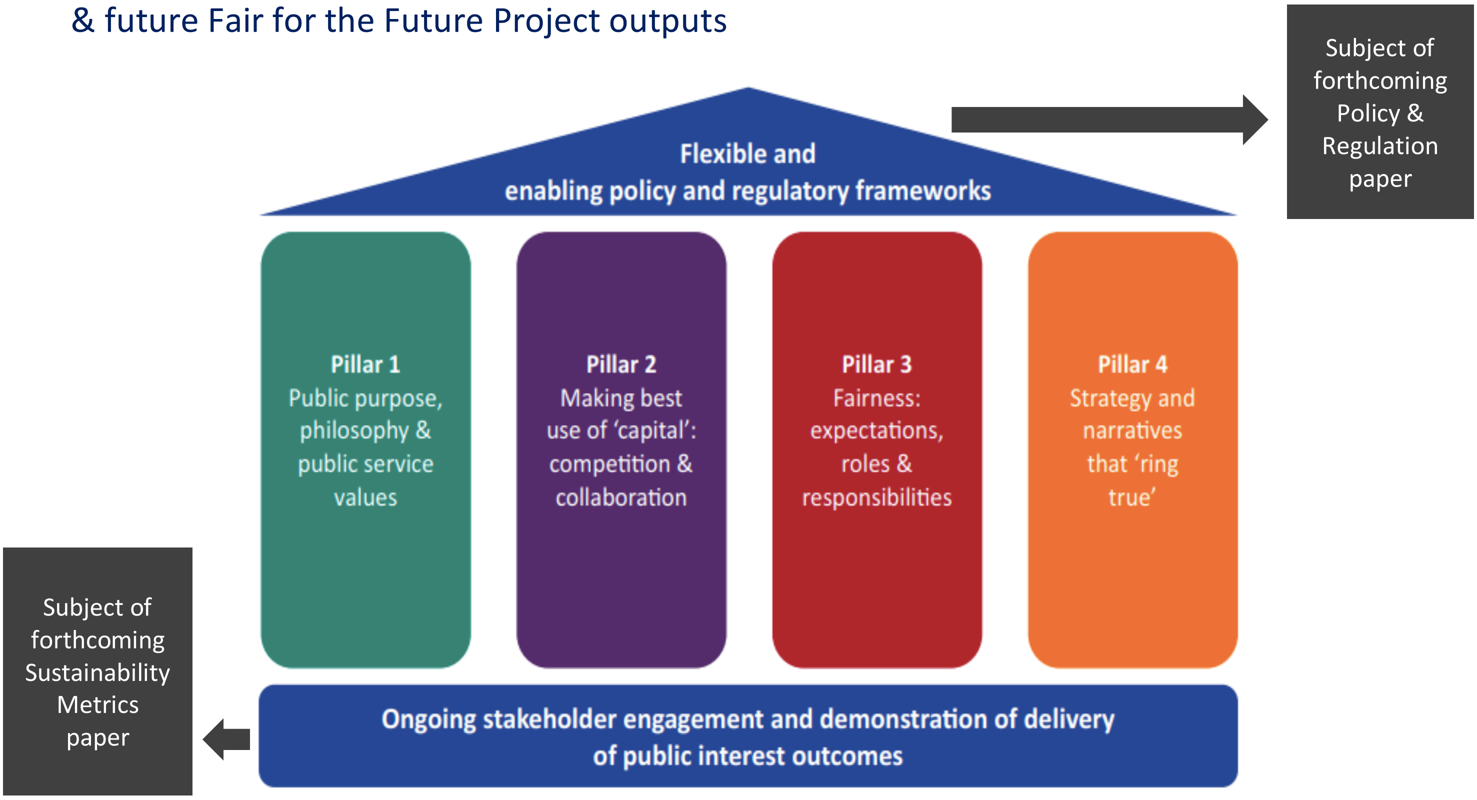
Our concept of a Sustainable Licence to Operate provides a **coherent, stretching and ambitious utility specific framework** for companies in these sectors to think about purpose. It has been tested with a wide range of stakeholders over several years; in a series of major multi-party day-long deliberative workshops, against case studies of good practice and - to move beyond 'purpose wash'/bolt-on Corporate Social Responsibility - in 'talk into action' calls.

To help address issues of legitimacy and accountability, the framework is built on the **foundations of ongoing stakeholder engagement and the ability to demonstrate delivery of public interest outcomes.** It contains **four pillars**: public purpose and values; making best use of 'capital'[1] through competition *and* collaboration; embedding fairness and clarifying roles and responsibilities; and developing strategies and narratives that 'ring true' with stakeholders.

Once a company has started to meaningfully address these issues, it can then more

[1] The term capital is used in this Guide to set out the range of assets which a company holds. This is explained in Section 5, but includes natural and human capital as well as simply engineering assets ('physical capital')

A 'Sustainable Licence to Operate' for public utilities,
& future Fair for the Future Project outputs



Source: Sustainability First

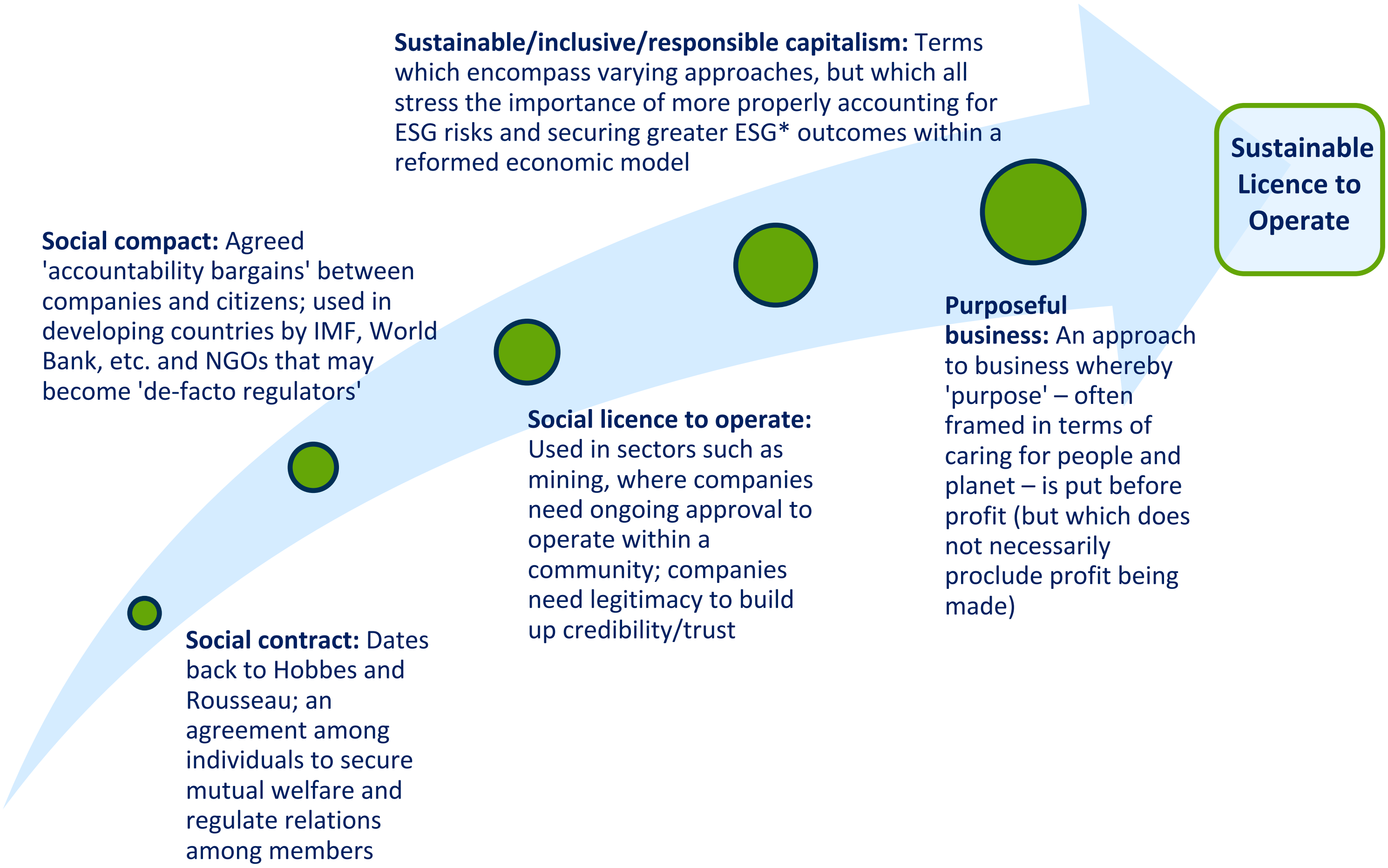
confidently engage with policy makers and regulators to help shape the more **flexible and enabling policy and regulatory frameworks** that can help all sides adapt to disruptive change.

This 'How-To' Guide draws on Sustainability First's significant research with stakeholders in this area over the last three years. It provides a **comprehensive and practical framework** for energy, water, and telecommunications companies in their journey towards more sustainable and purposeful business models and practices. The Guide contains a set of key **checklists** for senior leaders to use when considering how to put their purpose into action and how to maintain a Sustainable Licence to Operate in a dynamic and fast-moving context.

It also includes a **series of deep dives and case studies** both from within and without the utility sectors which provide a bank of helpful examples for Executive Teams to draw-on. These illustrate where businesses have gone above and beyond their formal regulatory remit/other duties to deliver social and environmental outcomes for consumers, citizens, and communities - including in the pandemic.[2]

[2] Although we believe the deep dives and case studies provide useful examples that companies may wish to draw on, we have not undertaken due diligence on each example – nor do we think it appropriate for us to do so. Rather, they represent areas where individual companies have something particular to offer by way of good practice. In some examples the case studies date from 2018 and companies may have moved on somewhat, but we believe that here the content remains relevant and useful.

Background to the concept of a 'Sustainable Licence to Operate'



Note – ESG = Environmental, Social, & Governance*

Source: Sustainability First

Recommendations[3]

The Foundations of a Sustainable Licence to Operate: Core Drivers of Change

- **An integrated approach:** Companies should ensure there is an integrated approach to a Sustainable Licence to Operate across the organisation; this can't be delegated to regulation or PR. To ensure they are 'walking the talk' and embedding a purposeful business approach throughout, companies should review performance against the checklists in each Section of this Guide.
- **Stakeholder engagement:** This underpins a purposeful business approach and must be ongoing and meaningful, including not only customers but also wider stakeholders, in order to capture the views of future consumers and communities. There is clearly merit in some co-invention here, and there may even be a case for handing some degree of control over decisions (particularly relating to local areas) to appropriately informed stakeholders/ communities, for example through deliberative fora.
- **Demonstrating delivery of public interest outcomes:** Developing a 'balanced scorecard' of sustainability metrics – including cultural metrics – is essential to evidence how the company is delivering on its purpose to key stakeholders and to enable meaningful accountability (see our September 2020 paper on metrics).
- **Focus on people and culture**: To put purposeful business into practice, people and culture are key. The recommendations in this Guide are not necessarily novel or ground-breaking, but ensuring that different members of the executive team, board, and workforce understand what they mean for them – and are able to act on this – is vital. Getting a diverse mix of skills (beyond engineering, accountancy and economics), experience, backgrounds and ways of thinking in the executive team is important to be able to address fairness issues.
- **Flexible and enabling policy and regulatory frameworks**: Purposeful companies need to work with policy makers and regulators to help shape the adaptive frameworks that are needed for a disrupted world. This issue will be addressed in a forthcoming Discussion Paper.

Pillar 1: Public Purpose, Philosophy, and Public Service Values

In order to embed public purpose, public utility companies should:

- Have a strong focus on day-to-day service delivery and getting the 'basics' right;
- Establish purpose from the 'bottom up', making use of thorough staff, customer and wider stakeholder engagement in order to ensure the widest possible buy-in;
- Adopt and maintain a values-driven culture – one which is measurable and understood by everyone from executive teams to frontline workers and key contractors;
- Nest public purpose in strategy – not in regulation, PR, or public affairs;
- Empower and enable staff to 'do the right thing', including those on the frontline;
- Adopt a 'systems value' approach whereby the company's purpose takes into account the full impacts of its operations.

[3] We are aware that each company will clearly be in a different place when it comes to their particular purposeful business journey, and that these recommendations will differ for utility companies depending on their sector, their place in the value chain, and their particular sets of risks and opportunities. The recommendations are therefore not prescriptive and will need to be applied to the company's individual circumstances.

Pillar 2: Making Best Use of 'Capital': Collaboration and Competition

In order to make best use of capital and embed collaborative as well as competitive approaches, a public utility company should:

- Focus on long-term stewardship – not ownership – of its full range of assets: not just physical capital;
- Consider common metrics and integrated reporting, valuing and measuring performance and impacts against the company's different types of 'capital';
- Take a systematic approach to collaboration, understanding co-benefits, maximising the impact of partnerships, and sharing risk and reward in a ‘fair’ way;
- Form productive inter-sector partnerships with like- minded companies, including but not exclusively through the supply chain;
- Seek best practice far and wide, including internationally and from other sectors;
- Provide sector leadership for the policy and regulatory changes required to better collaborate to deliver public value.

Pillar 3: Fairness – Expectations, Roles, and Responsibilities

In order to embed fairness and clarify roles and responsibilities in this area, public utility companies should:

- Carry out open, inclusive, and comprehensive stakeholder engagement processes to help determine what consumers and citizens deem fair (including for future generations);
- Map roles and responsibilities for fairness in a strategic, long-term way to inform the way they address boundary or 'wicked issues' and pay due regard to the company’s duties in terms of loyalty and care;
- Consistently apply purpose and values to company decision-making– particularly when navigating complex trade-offs;
- Be transparent in decision-making processes and customer communications;
- Encourage 'innovation for all', building the capacities of stakeholders, and staff and the supply chain to change.

Pillar 4: Strategies and Narratives that 'Ring True' with Stakeholders

In order to embed and deliver strategies and narratives that ring true with their stakeholders, public utility companies should:

- Create positive long-term future roadmaps for the company and sector alike;
- Strategically prioritise social and environmental outcomes, risks, and opportunities;
- Ensure organisational design and ‘reward’ is set up in such a way that incentivises and operationalises a sustainable company culture;
- Take 'no' or 'low regrets' actions which are adaptable to multiple future scenarios and bolster legitimacy and licence to operate.
- Be transparent about trade-offs, and how decisions involving trade-offs are made;
- Provide meaningful assurance to stakeholders that they are doing the right thing through robust internal and external accountability and reporting mechanisms;
- Demonstrate social and environmental *systems* value, and delivery for society, not just for shareholders.

Navigating this Guide

The Guide begins by setting out the Guide's key aims and stakeholders.

Section 2, 'Why Now?', outlines the present-day importance of embedding a purposeful approach to public service utility provision, especially given the context of the 'disrupted world', from net zero through to Covid-19.

Section 3, 'The Foundations of a Sustainable Licence to Operate: Core Drivers for Change', covers in brief the overarching underpinnings of our Sustainable Licence to Operate concept: ongoing stakeholder engagement and demonstration of delivery of public interest outcomes. It then briefly discusses how once a company is able to evidence meaningful progress in these areas, it can more confidently engage with stakeholders on the need for more flexible and enabling policy and regulatory frameworks. These topics will be covered in greater detail in forthcoming Sustainability First reports.

Sections 4 - 7 of the Guide outline our strategic recommendations for boards and executive teams, corresponding to the four pillars of our Sustainable Licence to Operate. Each of these sections contains:

- A **checklist** for senior leaders to consider when embedding that pillar in the business's decision-making processes;
- A succinct **analysis** of the pillar itself;
- A **series of deep dives and additional case studies** (see opposite) illuminating company good practice for respective areas of purpose-led business from a mix of utility and non-utility companies. There are two types: examples from before covid 19 (presented in blue boxes); and those focused on the Covid-19 emergency and purpose-led organisational responses; (presented in red boxes). The latter are included on the basis that the real test of a Sustainable Licence to Operate approach is how it informs company behaviours in response to a crisis, where tough choices must be made at pace.

The Guide concludes with a summary of the Fair for the Future Project's work to date and forthcoming outputs.

Index of Deep Dives and Case Studies

Again, we would note that we have not carried out due diligence on these case studies.

Developing and Embedding a Sustainable Licence to Operate and a Purposeful Business Approach

Aims of This Guide

The current coronavirus crisis and its likely economic, societal and technological legacy is the latest and starkest example of the ‘disrupted’ nature of the modern world. Companies need to take concerted and concrete action, aligned with social and environmental principles, if they are to prepare themselves for similar shocks and be seen to be acting ‘fairly.’

This is especially the case for regulated public utilities as providers of essential frontline services with a duty to act responsibly to all stakeholders.

This was recognised by many utility providers prior to the current crisis, with substantial work already in train to develop public purpose and embed fairness in company decision-making. However, the ground has significantly shifted. Tackling these issues is no longer ‘optional’ but imperative. Now, companies must undergo a step-change in building on these initiatives, ensuring that sustainability in its widest sense (economic, environmental, and social) underpins their business models and strategies – initiatives that in turn will win public utility companies’ legitimacy and enhance their own businesses' sustainability.

This Guide has been written to help businesses in this journey towards establishing a Sustainable Licence to Operate. It recognises that public utility providers are at different stages and is therefore not prescriptive. However, it provides a stretching and comprehensive framework, tailored to utilities, to get the shift that is needed in a purposeful business approach.

The Guide has been designed to be as practical as possible. As Boards carve out strategic time and space to consider what being a purposeful utility business means for them in this fluid and uncertain environment, our checklists will help frame decisions around resilience and set the level of ambition in terms of being a trusted and sustainable business. Our real-world examples and good practice case studies show the way; helping all sides to ‘operationalise’ fairness in concrete terms.

Why Now? Embedding a Sustainable Licence to Operate in an Age of Deep and Radical Uncertainty

Operating in a ‘Disrupted World’

Our Sustainable Licence to Operate strawman for the UK energy and water sectors, published in October 2018, highlighted the unique challenges a ‘disrupted world’ posed to public utility companies. We noted that ‘*change driven by technological, environmental, and societal disruption… will present opportunities but also risks to the delivery of public interest outcomes and [raise] questions of how best to balance different interests and the distributional impacts of change in a way that is "fair" for customers,* *future consumers, and wider stakeholders (including the environment).'*[4]

Among the disruptors we identified as part of this landscape were extreme and unpredictable weather events, more complex supply chains, cumulative shocks that impact people in vulnerable situations, deepening inequalities between generations and a crisis in adult social care that puts pressure on other services.[5]

With Covid-19, the scale of disruption utilities, and indeed much of the rest of the economy, face is now truly exponential. The devastating individual, community, national and global impacts are leading governments, citizens, and businesses to think about how behaviours, business practices and policy and regulation need to adapt to 'radical uncertainty'.[6]

But the pandemic represents only the latest – though, clearly, at least in the short to medium term, the most severe – of a series of disruptors. It started with concerns that utilities were not treating their customers fairly – leading to calls for nationalisation. This was accompanied by reputational hits from big fines for environmental pollution, misreporting of data, and the freeze-thaw of 2018 and the power outage of summer 2019.

Since then, the long-term landscape in which companies operate has been turned on its head by the rapid growth in climate and environmental activism, the Westminster government's 2050 net zero commitment, and the increasing pressure from investors to demonstrate Environment, Social and Governance (ESG) credentials to provide evidence that their investments would deliver sustainable returns.

Covid-19: The Short- and Long-term Impacts on Public Utilities

A focus on public purpose is meaningless unless it is put into action in an ongoing way and in a crisis. Utilities, as providers of essential community services and critical infrastructure, have been very much in the pandemic's frontline. These companies have often been unseen but key players in supporting household and business supply during lockdown – with accompanying staffing and resource challenges. How they put talk into action in an emergency – as companies in their own areas of operation but also in terms of how they collaborate as sectors – is vital.

In this regard, energy, water, and telecommunications companies appear in many respects to so far be having a relatively 'good war'; most of their key workers seem to be doing a good job of keeping the lights on, the water flowing, and communication networks running. 'Good' companies are empowering and supporting their staff in difficult circumstances to do the right thing and thinking about what the crisis means for their customers. In many cases companies are using their purposive vision and values to frame their response. If this continues, it could increase levels of consumer trust in companies and provide breathing space in the event that other disruptors appear on the horizon – including disruptors that the crisis itself may trigger.

This is not confined to the UK, or to direct assistance to customers. In Europe a number of utility companies such as Swedish Energy have used 3d printing to manufacture visors etc and

[4] Sustainability First, 'Fair for the Future: framing a "Sustainable Licence to Operate" for the water and energy sectors' (October 2018), p.13.

[5] Sustainability First, SLO, p.14.

[6] See, for example, Kay, J. & King, M., *Radical uncertainty: decision-making for an unknowable future* (2020), or the work of the Society for Decision Making Under Deep Uncertainty.

turned their warehouses and laboratories over to manufacture of PPE and anti-bacterials. Others such as RTE have accelerated payments to suppliers, thereby helping to avoid cash flow shortfalls.

But the short-term response to the crisis is only the immediate angle. Covid will trigger other longer-term changes, in some cases as fundamental as the crisis itself.

On the economic front, a deep recession will have significant implications across the board for utilities. The step-change in the magnitude of deprivation faced by an increasingly large proportion of society and the potential change in the nature of vulnerability is the most pressing. Companies are already facing pressure to reduce bill impacts and a growing vulnerability agenda.

Much support for customers in vulnerable situations, including those in financial difficulties, is funded via cross-subsidy, but this approach may not be viable if there is a significant increase in the number of customers needing support.

This is in part because there are already significant cross subsidies in utilities outside vulnerability: e.g. between urban and rural customers, and towards government priorities such as renewable energy.

Companies have been encouraged to tailor their services to meet the different needs of customers, including those with disabilities and temporary vulnerabilities such as mental health problems or bereavement. But when it comes to wide scale enduring affordability challenges, there is a question as to what the companies (and by default other customers) can realistically be expected to fund, and what should be tackled via public policy/the tax and benefits system.

A major short-term fiscal stimulus, with deficit and debt ratios returning towards levels last seen after the 2007-08 crash, is also likely. With very low interest rates and a historically extremely low yield curve, monetary policy simply does not have the bandwidth to play the stimulus role it did post-2008.

Slightly longer term, there may be voices calling for a return to austerity. While there may well continue to be a role for spending on infrastructure capital as part of a post-Brexit fiscal and productivity/competitiveness agenda, there is a danger that difficult long-term decisions such as decarbonisation of heat drop down the agenda. A widening between investment grade and non-investment grade costs of debt and flows into safe havens such as the dollar, gold, and (potentially) regulated utilities is also to be expected.

Business practices are also changing as a result of the pandemic. A re-examination of approaches to supply chains, away from 'Just in Time' and over-reliance on third-country sourcing is likely to occur – with renewed focus on local. An increased emphasis on the benefits of and willingness to fund resilience/security of supply, with politicians and consumers becoming more risk averse, is already happening.

And as the virus hits different regions and localities in different ways, the focus on localism and the powers, and resources, of metro mayors and other locally elected leaders, are being put to the test. The role of many network utilities as place shaping institutions and sources of jobs in a green recovery is coming to the fore.

An acceleration of changes to the nature of work and how we live and move in cities and towns is also occurring. Covid-19 is hastening the shifts towards home working, automation and digitisation already in train. Measures which might have taken years have been carried out in days and will not wholly unwind. Depending on the 'stickiness' of new behaviours, this could in turn lead to changing patterns of energy and water demand. This, along with the 'good war' boost to reputation mentioned above creates opportunities for purposive utilities: to accelerate digitisation and to create new ways of engaging customers, particularly younger customers.

Deep and Radical Uncertainty: Further Disruptors

The Climate Crisis, Net Zero 2050 and Environmental Awareness: The changes brought about by Covid-19 sit alongside a range of other recent disruptors. Most notable is the Westminster Government's 2050 commitment to Net Zero carbon. This move came partly in response to rapidly changing climate predictions and escalated climate activism, perhaps most notably that of the Extinction Rebellion and School Strike for Climate movements. As well as a shift in national government policy, the last 18 months has also seen a stronger emphasis from local government in this area, great numbers of local authorities now having declared 'climate emergencies'.[7] How these shape Local Area Energy Plans, and other key local planning documents, is the subject of much discussion.

There is a growing awareness more broadly, crystallised through events such as the 2019 winter floods, that our climate is changing and that adaptation (in addition to mitigation) is not something that can be indefinitely delayed. Furthermore, there is scope for public awareness and engagement to further rise: recent BEIS polling, for example, found only 25% of people knew either 'a little' or 'a lot' about the concept of Net Zero.[8] Initiatives such as the UK Parliament's Climate Assembly – provided its engagement is sufficiently deep and its findings properly heard by policymakers[9] – are one way in which this might steadily rise.

A Changing Political Picture: The utility business environment has clearly shifted significantly since the onset of the Fair for the Future Project in 2018, at which time a minority government was under pressure from a Labour Party committed to public ownership of energy and water. While the 2019 general election result might have diluted the prospect of nationalisation, however, the drivers behind widespread public support[10] for Labour's proposals remain. Meanwhile, the election result has also led to talk of increasing degrees of regional and national devolution and bridging the north-south divide. The pandemic response is stretching and testing many of the relationships between centre, regions, and localities to the limits. This is not to mention the successive delay to and uncertainty surrounding Brexit and what form this will take. Finally, the degree to which a new deregulatory agenda takes off as we emerge from the pandemic and try to reduce costs is also an open question.

Investor Focus: The investment world is also changing. This includes a growth in and mainstreaming of the wider public purpose agenda, with ESG and Impact Investing moving increasingly centre stage in financial markets. Whether it is BlackRock CEO Larry Fink's insistence that 'climate risk is investment risk',[11] former Governor of the Bank of England Mark Carney's continued warnings that companies

[7] Climate Emergency UK, 'List of councils who have declared a climate emergency' (February 2020).
[8] BEIS, 'BEIS public attitudes tracker' (March 2020).
[9] See Sustainability First, 'What should a UK citizens' assembly on climate change and net zero look like?' (September 2019) and 'The voice of the people' (April 2020)
[10] See Legatum Institute, 'Public opinion in the post-Brexit era: economic attitudes in modern Britain' (October 2017), which found that 83% of people in the UK supported nationalising the water industry and 77% electricity.
[11] S&P Global, '"Climate risk is investment risk": BlackRock exiting thermal coal investments' (January 2020).

risk having climate reporting rules imposed,[12] or many of the world's largest institutional investors calling for a coronavirus recovery package that does 'not lose sight of the climate crisis',[13] it is clear that investors are ever more attuned to environmental and climate risks – and that ESG criteria are no longer a desirable 'add-on' but an integral part of company reporting and risk mitigation for resilience.

Technological Disruption: Advancements in technology and a rise in digitisation are fundamentally disrupting the nature of the markets in which utility companies operate. The rise of artificial intelligence has changed utility business models radically. Big data continues to revolutionise business insights and operations. And, in the face of Covid-19, all of us are more reliant than ever on communications infrastructure and platforms, both professionally and personally. Companies will need to continue to adapt to these changes, evaluating their impacts on a continuous, rolling basis – especially given that technological disruption does not accord to fixed five-year price control periods.

Public Utility Responses to these Wider Disruptors: A number of utility companies have responded to these shifts – in some cases under real or perceived pressure from regulators and government, following high-profile reputational hits – and have looked to 'put their house in order': moving further towards an overt public purpose ethos; reducing investor returns or establishing dividend holidays; and moving away from the use of offshore holding companies.

There has also been a growing acceptance that stakeholder and customer engagement is not only here to stay but requires further enhancement. Company interest in next-generation tools such as deliberative and local fora (spurred on by climate citizens' assemblies and empowered by digitisation) is also on the increase.

The PR 19 water price review, meanwhile, has resulted in a significant number of company appeals to the Competition and Market Authority (CMA), including from companies that have been seen as actively pursuing a public purpose agenda, offset by an Ofwat strategy that is genuinely forward-looking.[14] This, along with the tough approach to financing issues in RIIO2, tempered by a clear and public Ofgem commitment to Net Zero through its Decarbonisation Action Plan,[15] is shaping expectations on all sides.

Sustainable Licence to Operate: A Robust Social and Environmental Framework

In responding to these myriad factors, companies can become siloed in their decision-making, failing perhaps to take fully into account the interdependencies of the external landscape or how their actions might better join up with one another. Although there has been some increased collaboration in the pandemic, and at speed, when companies operate in 'crisis' mode they can – to some degree understandably – lose sight of the bigger picture in favour of a focus on keeping the lights on, keeping the water flowing, or keeping people connected and safe. The danger is that without a holistic approach that takes account of sustainability, customers and citizens may subsequently fall through the cracks and underlying challenges will be ducked.

[12] The Guardian, 'Corporations told to draw up climate rules or have them imposed' (October 2019).
[13] Business Green, 'Investors holding trillions of dollars of assets join calls for green Covid-19 recovery' (May 2020).
[14] Ofwat, 'Time to act, together: Ofwat's strategy' (October 2019).
[15] Ofgem, 'Ofgem decarbonisation programme action plan' (February 2020).

A Sustainable Licence to Operate acts as a robust social and environmental framework to ensure this is not the case. Importantly, it is not a prescriptive, off-the-shelf solution to the complex trade-offs companies must make in their day-to-day operations; rather, it is an ongoing, evolving framework that can fit to a company's particular circumstances and provide practical steers for public utility companies seeking to go beyond compliance and their defined regulatory obligations in order to 'do the right thing' for and with their stakeholders.

In putting a Sustainable Licence to Operate into practice, companies can demonstrate their commitment to the public interest in a way that goes beyond 'talk' into the realm of 'action'. This will be crucial in the coming months and years as we deal with the fallout of Covid-19. If the looming economic downturn is to damage trust in our governing institutions, there is nothing to say it will not also damage providers of essential services, especially as immediate-term initiatives such as a moratorium on disconnections come to an end.

A Sustainable Licence to Operate is a vital tool for ensuring, first, that any next steps taken are proportionate to the challenges at hand and truly drive what Sustainability First has called a 'smart, green, and fair recovery',[16] but also that utility companies are held in sufficient standing to be trusted by consumers and citizens to carry these next steps out.

The Sustainable Licence to Operate is therefore more than a vague commitment to 'responsible capitalism' or 'purposeful business', though these are important concepts underpinned, in the case of the latter, by important principles.[17] Rather, it is a robust framework that can:

1. Shape company strategy, operations and actions – including, but not only, for major emergencies;
2. Through a focus on the wider social and environmental context in which the company operates, help inform and deliver medium- to long-term approaches to environmental challenges, such as net-zero delivery, and a smart, fair, and green recovery from the pandemic; and
3. Help a company demonstrate through the manner of their actions that they are indeed acting in the public interest – both in the short and long term. This is a pre-condition to being able to effectively engage with policy makers and regulators on how decision-making frameworks need to adapt to facilitate change in an age of uncertainty.

In this way, the Sustainable Licence to Operate approach goes beyond the model of 'stakeholderism' recently critiqued as an 'illusory promise' advancing 'a managerialist agenda, dressed in stakeholder clothing'.[18] This is in part because it is a framework tied to real and meaningful ongoing stakeholder engagement, not one nested in company regulatory or public affairs interfaces. Equally important, however, is the need within the Sustainable Licence to Operate framework for a company to adequately demonstrate how it has delivered public interest outcomes – including through a thorough, balanced, commonly understood set of sustainability metrics.

It may be that there are even greater benefits to adopting a purposeful approach, and that this in the long-term may positively impact on a company's bottom-line profitability. The academic literature in this area is mixed, some

[16] Sustainability First, 'Bridging Corona to a Sustainable Future'.
[17] British Academy, 'Principles for Purposeful Business', November 2019

[18] Bebchuk, L.A. & Tallarita, R., 'The illusory promise of stakeholder governance' (February 2020).

in fact arguing that there may be a short-term growth penalty associated with formal third-party responsible business certification.[19] However, companies themselves certainly see a bottom-line value in sustainability, the 2019 UN Global Compact's CEO survey for example reporting a 17% revenue growth value potential associated with sustainability over the next five to 10 years.[20] And, of course, this literature necessarily fails to take into account the huge changes wrought by Covid-19 and the associated economic fallout, after which stakeholders might expect a much more rigorous focus on maximising the business advantages of digitisation and a more comprehensive degree of buy-in for ESG and Impact Investing.

A Sustainable Licence to Operate is…	A Sustainable Licence to Operate is not…
A type of public interest compact, social contract, or 'new deal' between a company and their stakeholders	The same as an existing regulatory licence, with added 'purpose wash' – although meeting current licence requirements is integral to achieving a Sustainable Licence to Operate
A framework for ongoing responsible business practice and outcomes that enables the company to address and demonstrate how they are delivering on their public purpose	A prescriptive badge that encourages a 'tick-box' approach – although this does not negate the value of new and existing accreditations for different aspects of responsible businesses. Companies should beware of consultancies 'selling' purpose!
Based on engagement between a company and their own stakeholders	A generic approach that fails to recognise differences between sectors, where companies sit in the value chain, risks, resource levels, geographies, etc.
Dependent on ongoing dialogue with stakeholders and a continuous improvement culture – always moving	A case of 'set and forget'; just as the social and environmental challenges faced by companies are evolving, so too will their Sustainable Licence to Operate
A link between a licence to invest and build infrastructure and install 'kit' in people's homes and the value set needed to run and operate a service	Focused solely on gaining investor confidence to build infrastructure, and the latest investor reporting 'fad'
Judged i**nternally and externally** by corporate behaviour and culture and public interest outcomes delivered – using a comprehensive suite of social and environmental metrics needed to provide assurance in these areas, including the cultural metrics needed to chart the embedding of these behaviours	Assessed by adherence to process or outputs delivered
The result of a 'golden thread' tying purpose through the whole company – including company culture – but which is nested in strategy, not PR, PA, or comms	A generic mission statement that sits in a vacuum

Source: Sustainability First

[19] Branzer, O., Gamble, E.N., Moroz, P.W., & Parker, S.C, 'The impact of B Lab certification on firm growth' (March 2019).

[20] United Nations Global Compact, 'The decade to deliver – a call to business action: the 2019 United Nations Global Compact Accenture Strategy CEO study on sustainability' (September 2019).

The Foundations of a Sustainable Licence to Operate: Core Drivers of Change

Tangible actions aligned with the four pillars of the Sustainable Licence to Operate – public purpose, collaboration, fairness, and strategy and narratives that 'ring true' – must be underpinned by a foundation of deep engagement with customers and stakeholders, as well as meaningful demonstration by companies that they are indeed operating in the public interest. To really drive change, these actions need to be accompanied by flexible and enabling policy and regulatory frameworks.

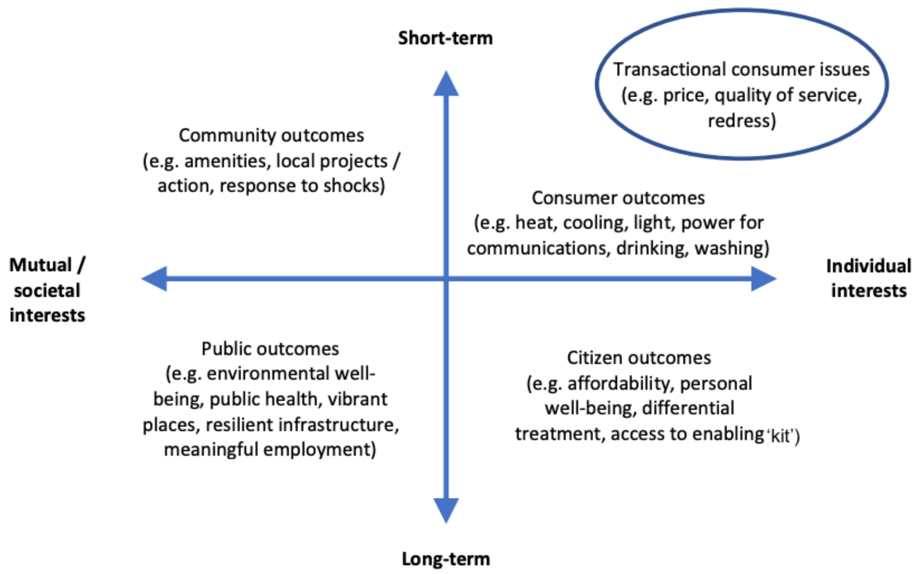
Ongoing Stakeholder Engagement

Companies cannot simply define public purpose for themselves. This has to be based upon what the public, suitably informed, see as that purpose. This needs to be an iterative and ongoing process.

Being clear about which 'publics' are relevant to a company and a particular issue is an important first step here. Given the extent of disruption faced, the divisions between consumer, citizen and community interests can be increasingly blurred; 'stakeholder mapping' needs to recognise this dynamic context. To do this, utilities need to understand what the full range of the 'lived experience' of its stakeholders looks like in practice along with having a good grasp of the drivers / triggers of future change.

To ensure a focus on public purpose, company and regulatory stakeholder engagement processes need to be meaningful and reflective of wider consumer and citizen needs, values and expectations. A wide range of techniques are needed to uncover these, with engagement being linked by a 'golden thread' to company actions and the delivery of public interest outcomes across the business over time (you

The different dimensions of the public interest in utilities



Source: Sustainability First

said, we did , this is the result).[21] This can be particularly challenging with regard to trade-offs between current and future generations, such as net zero and climate adaptation.

For monopoly companies that have a clear geographic footprint and enduring 'place making' role in the communities in which they operate, it is particularly important to ensure that engagement is deliberative and includes 'co-creation' of business plans and approaches.

The formal Consumer Challenge Groups in the water sector and Consumer Engagement Groups and User Groups in the energy sector, are designed to help embed ongoing engagement in utility company cultures but not to be a substitute for wider engagement. The fact that the groups operate within the company but at arms-length from it means they are able to see close up what company culture is like on the ground and can provide helpful insights into corporate purpose. However, this can also present risks in terms of capture and loss of independence and appropriate safeguards must be put in place.

In May 2020, Sustainability First held a Chatham House roundtable with Chairs and Members of the above groups to tease out how their remit and operations could be flexed to better take account of stakeholders' views. This is clearly crucial in the context of the coronavirus pandemic; '*As we move to the "new normal" for business as usual, [Customer Engagement/Challenge Groups], with their diversity of experience, perspectives, and cross-interest views, are well placed to provide more strategic challenge and input on the medium to longer-term impact of Covid-19*.'[22]

In the coming months, we will continue to develop our thinking on this area, as well as how the regulator may need to adapt their remit to embed models of independent challenge and meaningful engagement with as wide and representative a set of stakeholders as possible.

Demonstration of Delivery of Public Interest Outcomes

Ultimately, when it comes to the successful adoption of a Sustainable Licence to Operate, the proof of the pudding is in the eating. Companies need to be able to meaningfully *demonstrate* how they are delivering on their public purpose, both in terms of what is going well but also areas that need further attention.

Doing this requires a comprehensive and commonly understood set of sustainability metrics. This Guide is, therefore, accompanied by a separate Discussion Paper on how public utility companies can make better use of these tools. In short, whilst economic metrics are key parts of all corporate reporting, reporting environmental and social metrics can be a challenge – but particularly the latter. Environmental metrics, especially around carbon, are improving and metrics are clearly now much more advanced for the 'E' in ESG than they are for the 'S'. Whilst there has also been a degree of standardisation across companies and sectors (many companies, for example, have adopted external assurance metrics from sources such as GRESB),[23] there is still a proliferation of measures which can make demonstrating public purpose more challenging. Finally, the Discussion Paper stresses the importance of cultural metrics within Governance, arguing that an SLO requires a cultural shift and that boards and senior

[21] See Sustainability First, 'Looking to the long term: hearing the public interest voice in energy and water – eight agendas for change' (February 2018), pp. 28-33.

[22] Sustainability First, 'Should consumer challenge groups set up by utility regulators have a role during Covid-19?' (April 2020).

[23] See GRESB, 'The ESG benchmark for real assets'.

management need measures to help them assess progress on this area: perhaps the hardest part of the SLO to judge

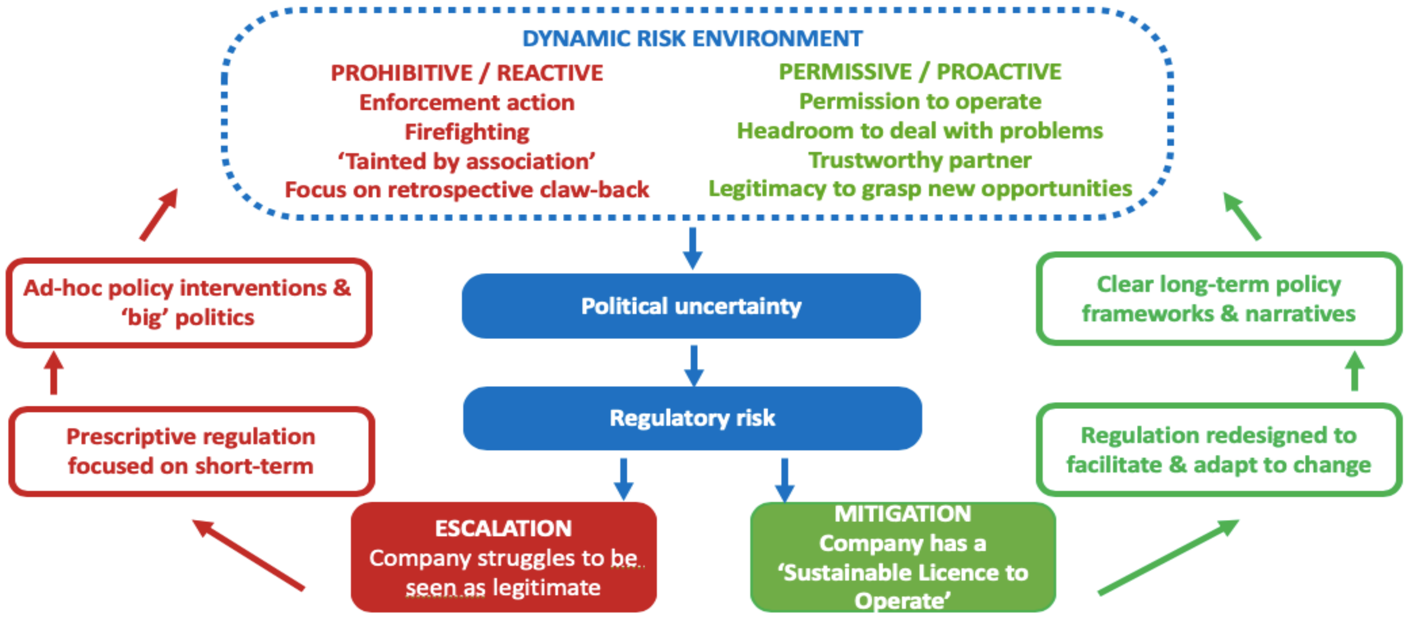
Flexible and Enabling Policy and Regulatory Frameworks

Utility companies cannot do everything on their own when it comes to embedding responsible business models and delivering for consumers and citizens at large. This is not to say, however, that companies are unable at present to make meaningful, purposive choices. There is room for manoeuvre even within the toughest regulatory settlement.

The concept of a Sustainable Licence to Operate is also premised on a flexible and enabling policy and regulatory framework which permits companies to take more radical steps in areas such as collaboration and fairness and does not leave the companies feeling at risk of being unduly penalised for doing so. There are positive signs that such a situation is being sought by regulators. Ofwat, for example, is increasingly framing its strategic priorities through the prism of 'public value',[24] while Ofgem has moved to frame its coronavirus response to networks and suppliers in terms of an 'enabling framework for regulatory flexibility'.[25]

However, it is our view that more could be done to create the type of framework that companies, regulators and policymakers state they are hoping to create: one that is not prohibitive or overly prescriptive, focused entirely on day-to-day 'firefighting', but rather one that is open and forward-looking, whereby companies have sufficient headroom to deal with problems, innovate and take proactive steps in the interests of customers. We will produce a separate paper later this year on the implications for policy and regulatory frameworks of a purposeful business approach.

A Sustainable Licence to Operate can create a 'permissive' environment to address the politics of fairness and the environment



Source: Sustainability First

[24] See Ofwat, 'Time to act, together: Ofwat's strategy' (October 2019).

[25] Ofgem, 'Impact of Covid-19 on energy network companies – an enabling framework for regulatory flexibility' (April 2020).

Pillar 1: Purpose, Philosophy, and Public Service Values

A checklist for embedding public purpose and values in your company

✓ Day-to-day service delivery: getting the 'basics' right and delivering continuous improvement

- Is the company getting the basics of service delivery right and meeting its regulatory licence requirements?
- Do the company's 'purposeful' actions go above and beyond what is required of them by the regulator – e.g. striving to deliver genuinely inclusive service that meets customers additional needs, not just adhering to minimum Priority Service Register requirements? Is this highlighted in meaningful customer-focused metrics?
- How do the company's customer service standards keep up with changing stakeholder expectations and evolving cross-sector best practice?

✓ Purpose and values from the 'bottom up': stakeholder engagement, staff and customer buy-in

- Has the company formulated its values and purpose *with* staff and customers - not simply with them in mind?
- How far does the company continue an ongoing dialogue with its customers and stakeholders outside regulatory channels such as Challenge Groups and mechanisms such as price controls?
- Can the company demonstrate that customers & staff understand their purpose & they have sufficient buy-in?
- Is the company meaningfully transparent in the data and information it publishes and has it co-invented its reporting approach with stakeholders?

✓ Values-driven culture

- Are the company's actions and decision-making – from executive teams to frontline workers – driven by a consistent set of values across the business that are relevant to their day-to-day public service provision?
- Does the company have in place a meaningful set of cultural metrics in order to demonstrate adherence to these values and are they sufficiently forward-looking?
- Does the company recruit and remunerate staff (and independent non-executive directors) on its values? Does the company's purpose influence organisational design? How far are values aligned with Executive incentives?
- How does the company manage its contracts to ensure that front line contractors adhere to company values?

✓ Purpose nested in strategy – not in regulation, PR, or public affairs

- Which part of the business is formally responsible for public purpose? Does this sit with strategic personnel, so it permeates the broader business agenda, including bottom line decision-making, or is it nested in regulation, PR, or public affairs, whereby it risks becoming 'purpose-washing', regulatory gaming, or a comms exercise?
- What are the reporting lines to the board for those who are formally responsible for purpose?

✓ Empowering staff to 'do the right thing', including frontline workers

- Is the company's purpose set out in a clear way so all staff understand what it means in practice for the company, their own role, and so that they can communicate it in a meaningful way to external stakeholders?
- Are staff nurtured and empowered within their remit to take action to deliver on the company's purpose – to ensure better social and environmental outcomes and so that risk and reward are shared fairly?

✓ Adopt a wider 'systems value' approach

- How does the company's purpose take into account the wider impacts of its operations, e.g. its obligations to the environment and to society more broadly, short- and long-run?
- Is the company's purpose underpinned by a holistic approach that governs business-as-usual activity – so that the company operates in a purposeful way in 'peacetime' as well as 'wartime'?

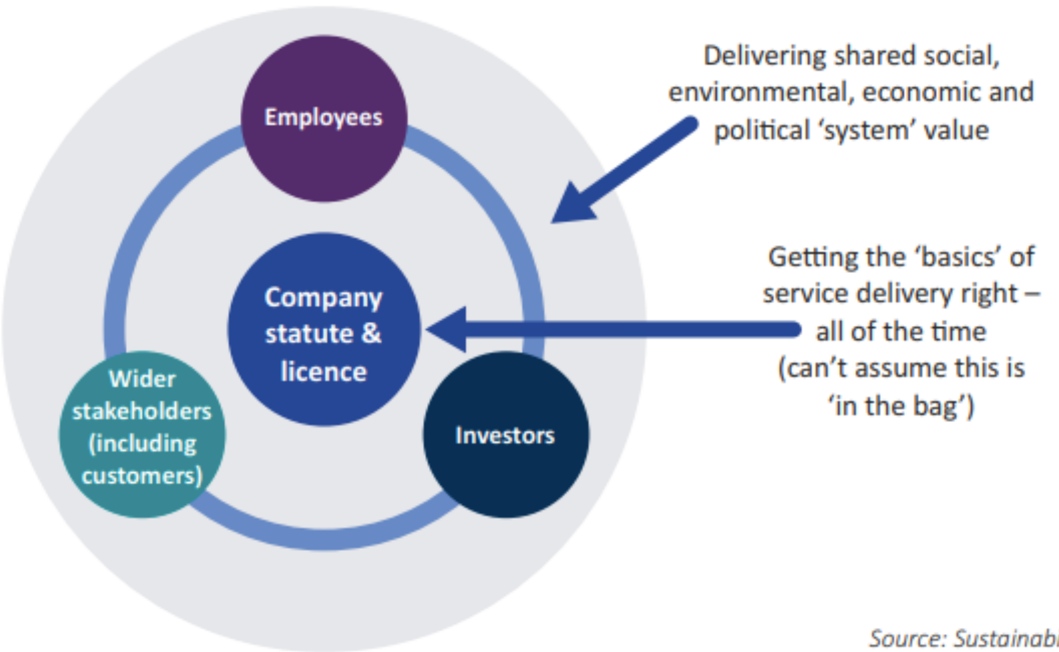
Source: Sustainability First

Delivering and Embedding Purpose

In our 2018 Sustainable Licence to Operate strawman, we set out the importance for utility companies of engaging in continuing and balanced dialogue with employees, investors, and wider stakeholders regarding: 1) the basics of service delivery and whether they have got these 'right' in terms of statutory and licence compliance for fairness and the environment; and 2) how public purpose may need to be reinterpreted to make companies 'fit for the future' given the disrupted landscape, taking into account their roles as providers of essential services and/or public goods within total 'systems'.[26]

Since publication of the strawman, the notion of a corporate public purpose separate from that of shareholder return has risen dramatically up the business agenda, both in the UK and internationally, including specifically in the utilities sectors. Projects such as the British Academy's Future of the Corporation programme have put forward a series of recommendations for 'revisiting the contract between business and society' such that 'purpose' is put 'before profit'.[27] The pages of the *Financial Times* pages are full of talk of a 'new agenda' of 'responsible capitalism'.[28] Internationally, too, business leaders are spearheading calls for a different model of capitalism that moves away from the idea that a business's primary duty is to deliver returns to its shareholders. Take, for example, the Business Roundtable's landmark move to redefine the purpose of a corporation to 'promote an

The context within which decisions about purpose and values take place in utilities



Source: Sustainability First

[26] See Sustainability First, 'Fair for the Future: framing a "Sustainable Licence to Operate" for the water and energy sectors' (October 2018), p.22.

[27] The British Academy: Future of the Corporation, 'Principles for purposeful business' (November 2019).
[28] See *Financial Times*, 'The New Agenda' series.

economy that serves all'.[29] The Covid-19 pandemic has exposed the fragility of complex and interconnected systems and business models. It has therefore led to a renewal of such messages, and a demonstration by investors that they appear willing to put their money where their mouth is when it comes to ensuring a recovery that is both fair and green.[30]

Even before the pandemic, utility companies had started to frame their business purposes in terms of public value/the public interest. Water UK's Public Interest Commitment is an example, whereby companies vowed to *'running…vital public [services] for the public good'*, underpinned by specific and actionable commitments such as meeting a sectoral net zero carbon emissions target of 2030.[31] Indeed, some water companies have gone further, including Anglian Water amending their Articles of Association to enshrine purpose.[32] The importance of purpose has again been reiterated by companies in the sectors in the context of Covid-19: BT, for example, has talked about how its customer communications during the crisis have sought *'not [to] tell people what our purpose is, but [to do] purposeful communications that demonstrate our purpose.'*[33]

There are legitimate questions to be asked, however, in terms of how far companies have managed to turn 'talk' into 'action' when it comes to acting in a responsible or purposeful manner. Put simply, there is a risk that 'purpose washing' or 'social washing'[34] becomes the new greenwashing, especially in the context of the pandemic, where companies have to navigate complex trade-offs and boundary issues as they struggle with cash flow amid the severe economic fallout of the crisis.

There is a need, therefore, to clearly set out what a truly purposeful company *does differently* in incorporating the public purpose and public service values pillar into its business strategy as part of a broader Sustainable Licence to Operate approach. This section's checklist outlines six key areas for public utilities to consider in assessing their approach to purpose. It is not intended to be prescriptive; we recognise that companies in different sectors and with different ways of working will be in different places in terms of incorporating public purpose. Nor is it an attempt to turn the complex job of embedding purpose into a simple tick-box exercise. Rather, the questions in the checklist represent an overarching and comprehensive framework for senior leaders to use when considering where they are in this journey – and crucially what they want their level of ambition to be.

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[29] Business Roundtable, 'Business Roundtable Redefines the Purpose of a Corporation to Promote "An Economy That Serves All Americans"' (August 2019).

[30] See, for example, Business Green, 'Morgan Stanley's eight reasons why Covid-19 won't derail decarbonisation' (April 2020), *Financial Times*, 'Coronavirus forces investor rethink on social issues' (April 2020), Business Green, 'Investors holding trillions of dollars of assets join calls for green Covid-19 recovery' (May 2020).

[31] Water UK, 'Public Interest Commitment' (April 2019).

[32] See 'Anglian Water 'Enshrining purpose as legal constitution':(July 2019).

[33] Marketing Week, '"We wanted to do the opposite of everyone else": How BT is demonstrating its purpose during the pandemic' (April 2020).

[34] Bloomberg, '"Social washing" is becoming growing headache for ESG investors' (April 2020).

Pre-Covid-19

Post-Covid-19

Deep Dive: Defining Purpose and Values

Manchester Airports Group: A 'Bottom Up' Approach to Responsible Growth

Background: Manchester Airports Group (MAG) owns and operates Manchester, London Stansted, and East Midlands airports, together with a significant property business. 58 million passengers pass through MAG airports annually and the group's airports directly employ more than 40,000 staff and support another 82,000 throughout the UK. Each year, MAG contributes £7 billion to the UK economy.

A carbon neutral business: MAG is proud to be operationally carbon neutral, with 100% of airport energy needs being met using renewable sources. MAG is ambitious to grow but recognises that the size, scale, and nature of its business means it has a duty to pursue that growth in a responsible way, minimising the impact on the environment and maximising the benefit it offers to the areas it serves.

Ownership model: MAG is a holding company, which is owned by both public and private shareholders including Manchester City Council, the nine other Greater Manchester Local Authorities and Australian investment fund, IFM Investors. Its ownership model means that how it contributes to the prosperity of the regions it serves is important to the owners and both sets of shareholders are interested in the long-term success and sustainability of the business; the interests of the public and private sides of the business are aligned.

A bottom-up approach to responsible growth: In 2015, in response to business needs and reputational issues, MAG created a new Corporate Social Responsibility Strategy, using a bottom-up approach with the support of the owners, CEO and the Chief Operating Officer. This was driven by:

- A changing climate and the widely held perception of aviation as a 'totemic' issue meant MAG wanted to demonstrate it was doing all it could to mitigate and manage the impacts of airport operations.
- The need to meet the demands of increased growth, primarily through investing in new infrastructure.
- The ever-growing importance of local communities and their concerns around environmental issues such as aircraft noise.
- Recognition that historic community programmes needed to be more coherent and coordinated.
- Direction and experience of new shareholders meant there was recognition that, in the corporate world, there was an expectation that companies would do more to report what they are doing in this area.

Reviewing strategy: MAG built their strategy on these foundations, took a step back to analyse where they were and commissioned a Materiality Review by an independent specialist to identify the most relevant sustainability issues for them. The review process saw an extensive list of stakeholders interviewed about what issues they felt were important for MAG to consider and act upon. The findings were published in a report, which was used to develop outputs for MAG's CSR Reporting. To ensure relevance, MAG has continued to carry out a 'light touch' Materiality Review each year to test the reporting outcomes. MAG also set up a Group CSR committee, comprising a cross section of Executives and Senior leaders. This work has also become part on the business planning cycle.

MAG

Manchester Airports Group: A 'Bottom Up' Approach to Responsible Growth

Evolution of approach – key learning points:

- The active support of the CEO (not just when things go wrong) and Board is key, but to sustain this Executives need to see tangible, understandable long-term benefits, which can be incorporated into the business plan (e.g. lowering energy use for the associated reduction in bills and carbon use).
- Building key measures into the criteria to assess investments will get attention and focus (e.g. Cost of Carbon being included in pay back analysis).
- Need to engage effectively with the wider community, which means getting out there; Community Relations used to spend 80% of their time answering calls on noise complaints but a shift to proactive engagement has seen this reduce significantly. Building relationships takes time but pays dividends (EMA 24hr operation, MAN second runaway, and STN planning approval, for example).
- Must build measurable targets into performance review process and link to personal remuneration. MAG expects employees to do volunteering.
- CSR needs to be a mainstream part of organisational governance arrangements to be effective. CSR Committee at MAG is now a Committee of the Board, chaired by a NED and attended by the Chairman.
- Messages must be simple and understandable so that they can be effectively communicated.
- There must be an acceptance that CSR strategies will continue to evolve so the business needs to be able, and prepared, to react flexibly to changes in policy or public expectation.

Other points of note:

- MAG's focus has been mainly on infrastructure, with limited focus on the role of the customer. There is some complexity for MAG in defining the customer; the airlines? the other businesses operating from the airports? the passengers? Work is in progress to look at this, with the challenge being that MAG has very little, if any, direct relationship with the customers before they arrive at the airport.
- Cross industry working with the airlines, air traffic control, aeroplane manufacturers and other key parties through 'Sustainable Aviation' has been crucial in delivering good outcomes such as reducing noise.
- MAG is beginning to consider Social Value, the cost of it and how this is practically incorporated into the business.

MAG

Further Case Studies and Lessons Learned

Anglian Water: Amending Articles to Enshrine Purpose

Background: Anglian Water is a utility company that stores, treats, and supplies water to more than six million customers in the East of England. Operating a large network of pipes and water recycling works, the company collects water from rivers and underground aquifers, stores it in reservoirs, treats and supplies it to customers, and then treats sewage and returns clean water to the environment. It is a subsidiary of Anglian Water Group (AWG); AWG is owned by a consortium of pension fund and long-term infrastructure investors. As a regional, privately-owned company providing an essential public service, Anglian Water is embedded in social and environmental networks that are characterised by relationships of mutual dependency and impacts. The company thus both depends on and impacts the health of the environment. Likewise, Anglian Water draws talent and skills from regional communities, whose well-being, in turn, depends on fresh water-access and economic opportunities provided by the company. The success of Anglian Water is thus tightly linked with the prosperity of local communities and a flourishing natural environment.

In recent years, proposals have emerged from across the political spectrum for reforming the water sector – ranging from the renationalisation of water companies to tighter regulatory oversight. Against this background, Anglian Water sought to reaffirm its commitment to serving the public interest, regardless of which policy or regulatory framework may be in place and became the first water company to incorporate an obligation to deliver benefits to society and environment into the company's legal constitution.

Enshrining purpose: As a monopoly provider of an essential public service, Anglian Water has long had an awareness of its special responsibility to serve the public interest and generate social and environmental value beyond the provision and recycling of fresh water. This commitment is reflected in Anglian Water's corporate purpose:
"Our Purpose is to bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop."

In July 2019, Anglian Water went one step further and amended its Articles of Association (AoA) to ensure that the purpose of the company and the corresponding obligations of directors are formally recorded in the company's legal constitution. Taking this step was motivated by several reasons. Firstly, it would ensure the sustainability of Anglian Water's public interest commitment and decouple it from the support of specific management teams or owners at any point in time. The ultimate owners of the business (who are represented on Anglian Water's Board) supported the amendment of the AoA, and accepted that, as directors of Anglian Water, they have a legal duty to promote the purpose of the company. Secondly, it would support Anglian Water in building trusted relationships with regulators and customers and protect the legitimacy of the business by legally embedding its public interest commitment into corporate governance. Thirdly, the purpose enshrined in the AoA would serve as a "North Star" for the organisational culture, representing a common goal and informing the values and behaviours for employees. Lastly, it would help Anglian Water to attract stakeholders (e.g. investors, employees) who share the company's purpose and values.

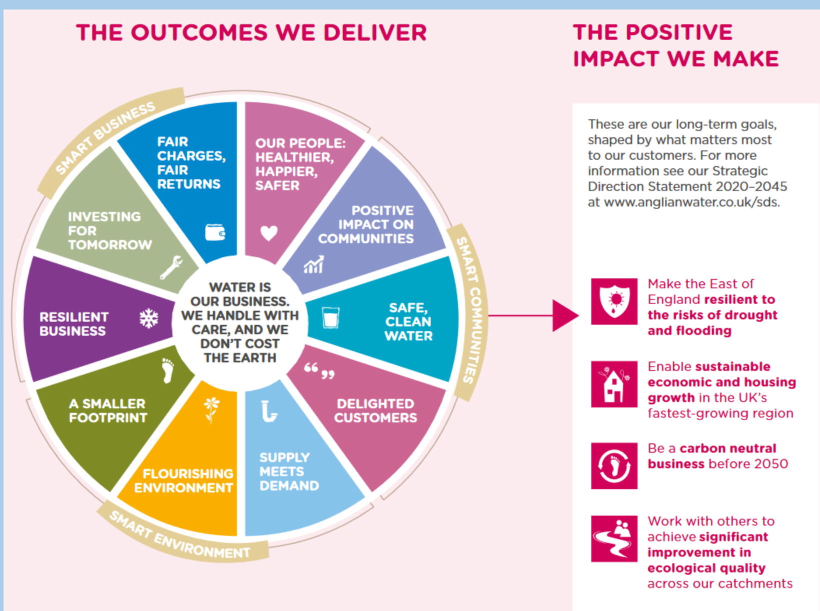
Amending AoA: The decision to incorporate purpose into Anglian Water's Articles of Association was preceded by extensive board-level discussions which centred on the question of how to balance the duty of directors to deliver economic, social, and environmental outcomes with the reasonable expectation of shareholders to earn a fair return on their investment.

love every drop
anglianwater

Anglian Water: Amending Articles to Enshrine Purpose

In this process, Anglian Water made use of "Purposely", a digital tool supported by the UK Department for Digital, Culture, Media & Sport that is designed to advise companies on options to embed purpose into their legal structures. Discussions within Anglian Water focused on two of the models available on Purposely (Models 1 and 2). Model 2 proceeds on the basis that directors would be obliged to place equal weight on shareholder, social, and environmental interests. While Anglian Water's shareholders, which comprise both pension funds and long-term infrastructure investors, were supportive of amending the AoA, they raised concerns that Model 2 had the potential to undermine the predictability of dividends which are essential to their ability to pay pensions to their beneficiaries. Ultimately, it was decided to adopt a modified version of the Purposely articles, drawing from both Model 1 and Model 2, which included a commitment to delivering positive social and environmental outcomes while acknowledging the fundamental importance of delivering fair returns to shareholders and protecting the ability of Directors to fulfil their fiduciary duties. As a result, Anglian Water amended its AoA in the following ways:

1. *Purpose and nature of company*: The purpose of the company is to conduct its business and operations for the benefit of members as a whole, while delivering long term value for its customers, the region and the communities it serves and seeking positive outcomes for the environment and society.
2. *Directors' duties*: The amended AoA requires directors to promote the purpose of the company and consider
    i. the impact of our operations on communities and the environment;
    ii. the interests of the company's employees;
    iii. the need to foster good relationships with customers and suppliers;
    iv. the need to maintain our reputation for high standards of business conduct; and
    v. the consequences of decisions in the long term.
3. *Reporting and records*: The company will publicly disclose its purpose and report its performance against this purpose in its annual report. More specifically, the Board will identify a set of responsible business principles as a standard against which the company will measure itself and report on the extent to which the relevant standard has been achieved.



Anglian Water Outcomes & Impacts
Source: Anglian Water

love every drop anglianwater

Compass Group: Social Purpose Strategy

Background: Compass Group is a British multinational contract foodservice company covering hospitality, building and industry, cleaning and procurement services. They operate behind the scenes at sports and leisure events, schools, hospitals, and care homes across 45 countries and are the largest company of their kind.

Strategising purpose: The Group announced their guiding 'Social Purpose Strategy' in 2018. Importantly, its Purpose Pillar focuses upon two cornerstones: safety as care and a renewed commitment to sustainability. Meanwhile, the People Pillar focuses on ensuring they have a dedicated and motivated workforce (critical to a competitive advantage). Finally, the Performance Pillar concerns best-in-class execution across the entire group. Ultimately, this strategy aims to deliver better quality and more sustainable long-term growth. The Group clarified and actioned this 'social purpose strategy' through undertaking an enhanced materiality assessment, designed to better understand stakeholder needs. This systematic assessment engaged third party experts to help gather internal and external data including: a review of key client and supplier sustainability strategies, a study of relevant NGO and academic reports, analysis of various relevant responsible business benchmarks, engagement with several hundred Compass Group colleagues including senior leadership and a review of existing policies, programmes and practices. As a result of this systematic assessment, the Group identified the issues most important to stakeholders, translating into three priority areas which guide their renewed commitment to sustainability:

- Health and Wellbeing – helping people to make better nutritional choices, be supported in their mental health, and follow healthier lifestyles.
- Environmental Game Changers – reducing food waste and single-use plastics, and promoting plant-forward meals
- Better for the World – sourcing responsibly, enriching local communities, and collaborating for big change

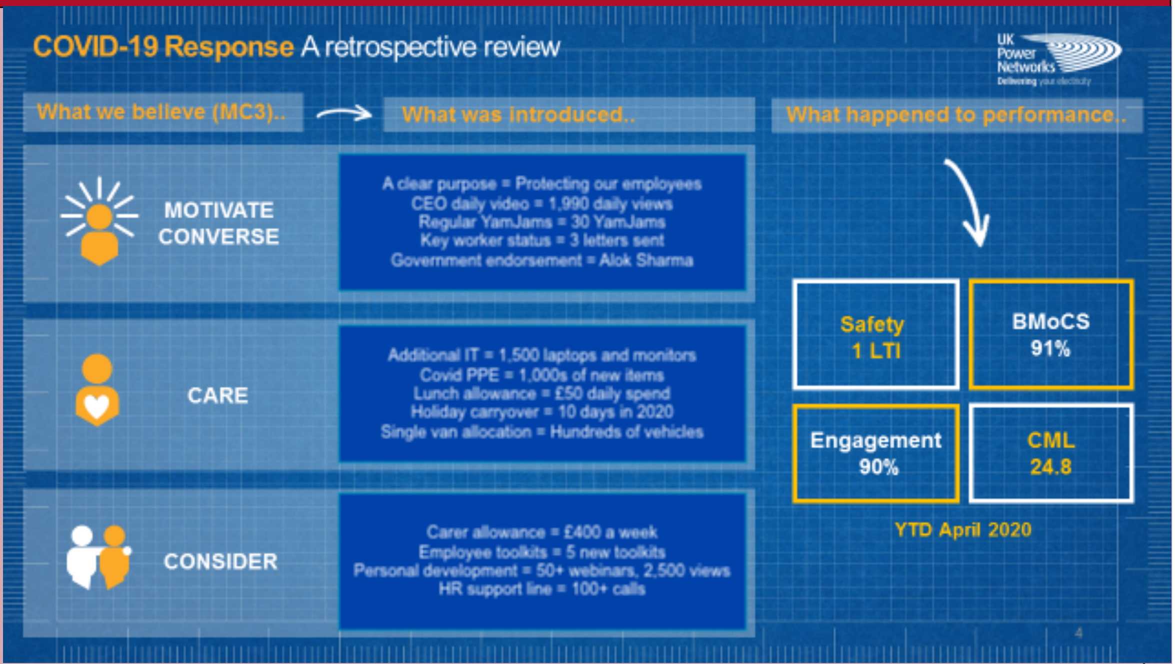
To ensure that company strategies and narratives align and to deliver on these priority areas, the Group has launched a number of important partnerships. In 2019 for example, the Group partnered with EAT on a pilot project in its Nordic operations to track the carbon footprint of the food it serves, alongside a Compass Group project in Denmark which is focused on lowering the CO_2 impact of the food it purchases in 2020 by 25%. The data collected will be used to analyse the food served by Compass Group, and where appropriate adjust purchasing and menus with healthy, lower-carbon alternatives such as increased plant-based options, to reflect the need for sustainable food systems. Compass Group is also now a member of the World Business Council for Sustainable Development.

Similarly, in an effort to meet a 50% food waste reduction target by 2030 and in alignment with the 'Environmental Game Changer' priority area, Compass Group launched a dedicated, 'Stop Food Waste Day'. The aim was to explain risks associated with the food waste crisis, thereby empowering customers and employees to reduce waste in professional and home kitchens. It has now become an annual, global event, with 38 Compass markets participating in 2019, millions of zero-food waste meals served and a campaign that reached 89 million people in 100 countries. This reach was bolstered through the third-party support and endorsement from the World Food Programme, the Food and Agriculture Organization, WWF, Jamie Oliver, British and French Vogue, Fast Company, and others. Not only do these campaigns create a positive narrative for change, but the publicity establishes Compass Group leadership and compels the Group to turn the talk (targets) into action.

New metrics of long-term value: Attempting to prove the utility of the aforementioned efforts in delivering long term value has resulted in underlying and alternative measures being used to describe the Group's performance. These are not recognised under IFRS or other generally accepted accounting principles (GAAP). The Executive Committee of the Group, who manage and assesses the performance of the business, believe these measures (financial and non-financial KPIs) are more representative of ongoing trading, facilitate meaningful year-on-year comparisons, and provide the best way of communicating progress made against their strategic priorities.

COMPASS GROUP

UK Power Networks: Investors in People & Covid-19 Response



Source: UK Power Networks

Background: UK Power Networks (UKPN) is a distribution network operator that owns and maintains the electricity cables in South East England, the East of England, and London.

Investors in People: UKPN have been awarded the Investors in People (IIP) Platinum Accreditation – one of only around 2% of the thousands of companies who hold the accreditation to reach Platinum status. This accreditation assesses organisations' people management against nine key criteria, including: Living the organisation's values and behaviours; Empowering and involving people; Delivering continuous improvement; and Creating sustainable success.

Platinum Award: UKPN has been recognised as a leading organisation by IIP, rising from a Gold to a Platinum company. 82% of UKPN's staff say that it is a great place to work, with morale having increased over the last three years – as indeed had all assessed metrics. UKPN has also been recognised in the top 10 of the Sunday Times Best Companies to Work For list for the second year running. IIP particularly praised UKPN's 'noticeably more consultative and collaborative' culture.

Source: Investors in People Framework

Covid-19: This people-focused culture has played into UKPN's Covid-19 response. IIP noted in its most recent assessment how the organisation's achievements over recent years 'are compounded by the positive response from interviewees to how UK Power Networks has responded to the extraordinary challenges presented by the outbreak of the… pandemic. [UKPN]… enabled 2,800 people to be provided with laptops and the ability to work from home, whilst also facilitating field staff's safe working with separate vehicles, all in a matter of days.'

The business has approached the pandemic keeping a clear purpose in mind: 'Protecting our employees'. Internally, staff have been kept fully up to date with important developments through daily CEO videos and regular staff Q&As, and key workers equipped with thousands of new items of PPE.

UK Power Networks Delivering your electricity

UKPN has also sought to respond innovatively to the problems the pandemic has caused for its customers, for example, by developing an app to help key workers support those who are feeling socially isolated.

Pillar 2: Making Best Use of ‘Capital’: Collaboration & Competition

Checklist for making best use of capital through collaboration & competition in your company

✓ Stewardship of assets: Caring for assets long-term/being a responsible custodian

- Does your company start from the position of being *stewards* of the assets you hold, in the broadest sense of ‘assets,’ or simply being the *owners* of the assets?
- How does your company demonstrate it is stewarding the assets with the long-term interests of the assets and the long-term impacts of your operations in mind? (eg length of planning horizons, scenarios etc)

✓ Sustainability metrics and integrated reporting against different types of 'capital'

- What sustainability metrics do you use to value and measure your performance across the full range of 'capitals' – including data?
- Has your company considered integrated reporting against the types of capital your company holds?
- Where there are trade-offs in terms of different types of capital, does your company evidence the rationale for key decisions to stakeholders in clear and simple language?
- Are natural/environmental and social capital treated as material to your company & is this reflected in reporting? How does your company's annual report and accounts cover social and environmental issues?

✓ Systematic approach to collaboration: Understanding co-benefits and maximising impact

- How does your company decide when it is best to collaborate and when it is best to compete? Is there a common set of criteria or a framework in place for deciding when collaboration is most appropriate, rather than this being done on an ad hoc basis?
- Are collaborative projects entered into with a clear end-goal and impact in mind? Are stakeholders chosen after a thorough period of analysis and research re their capacity to deliver these impacts?
- Does your company understand what it means to be a good partner? How do you analyse the potential co-benefits collaborative projects may bring & how they may add value in the round for partners & systems?

✓ Form productive inter -sector partnerships

- To what extent has your company formally sought to establish partnerships with other regulated utilities from outside of your given sector?
- Does your company have clear processes in place for collaborating with businesses and third sector organisations including local authorities and charities from outside the sector/public utilities?
- What governance arrangements do you use to ensure the fair share of risk and reward with partners?
- How do you measure the satisfaction of key partners and seek and act on feedback to constantly improve your approach?

✓ Seek best practice far and wide

- Does your company look across borders for good and innovative practice, seeking to understand cross-sector and international examples of collaboration and apply these to the UK context where it can?

✓ Push for policy and regulatory change

- Is your company confident in making the case together with your sector to policymakers, government, and regulators for reform in areas that may inhibit collaborative working?
- Can your company convincingly demonstrate to the above stakeholders the necessity of collaborative working for enacting important environmental and social outcomes such as Net Zero delivery?

Source: Sustainability First

Making the Best use of Capital

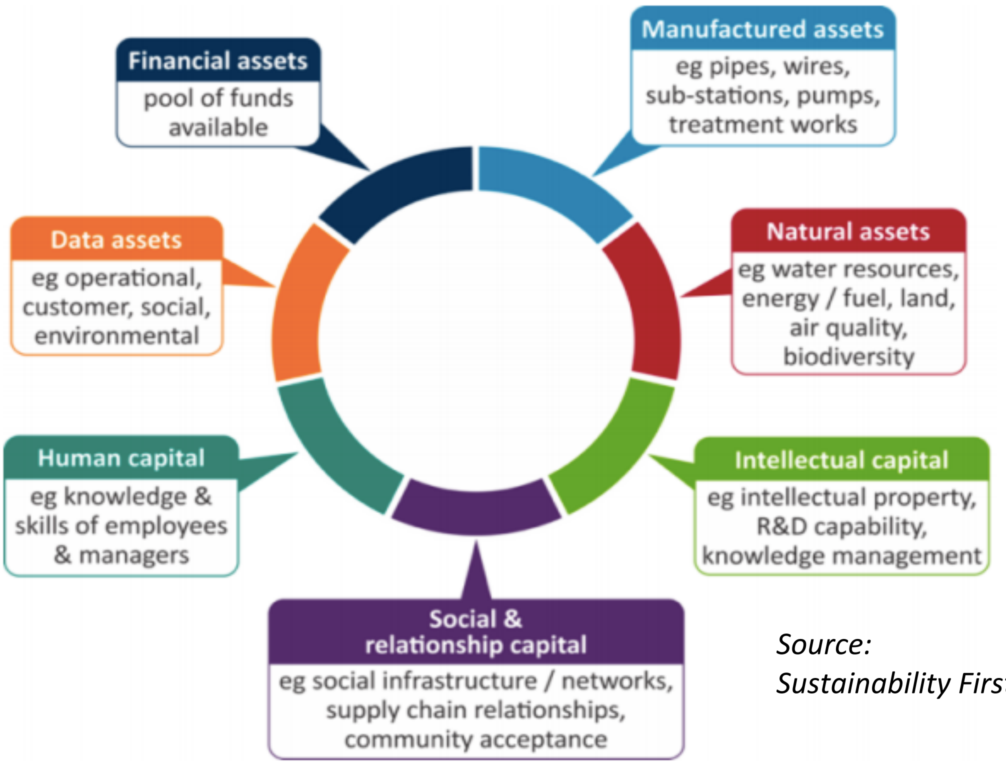
Public utility companies have valuable assets, but the different types of 'capital' they have, and how they might make best use of these, varies. In our Sustainable Licence to Operate strawman, we adapted the International Integrated Reporting Council's (IIRC) 'six' types of capital model – financial assets, manufactured assets, natural assets, intellectual capital, social and relationship capital, and human capital – to also include data assets.[35] Some types of capital are more relevant to some companies than others; a water company, for example, will inevitably take greater regard of natural assets such as the biodiversity of its sites than would an energy retail company.

Throughout the project, we have sought to assess whether energy and water companies are making the most effective use of the different types of capital they have in order to deliver on their public purpose and wider systems value.

Integrated 'capitals' reporting encourages businesses to take a holistic approach to the entire range of assets under their stewardship, and to the environmental and social *impacts* their actions may have on these assets in the round. Utilising a capitals approach can help companies to clearly map roles and responsibilities. It can help to tease out areas where companies may need to improve their operations; systematic capitals-based reporting mechanisms, for example, may highlight to companies that they lack the adequate metrics to measure success vis-à-vis human or social and relationship capitals – areas where capturing performance can be difficult.

While we have amended the IIRC's model, there are a range of approaches to this issue. SASB, for example, recommends water and electric

The different types of 'capital' in public utilities



Source: Sustainability First

[35] See IIRC, 'Capitals: background paper for <IR>' (March 2013).

utilities report against the five loose 'capitals' of environment, social capital, human capital, business model and innovation, and leadership and governance.[36] The Embankment Project for Inclusive Capitalism also adapts the IIRC approach by identifying the four 'long-term value categories' of financial value, consumer value, human value and societal value.[37] The World Economic Forum, meanwhile, has developed a suite of 'common metrics… of sustainable value creation' sitting under the four broad themes of principles of governance, planet, people, and prosperity.[38]

The number of utility companies producing integrated reporting that takes into account their fuller range of capital assets is increasing – although some continue to adopt intuitive rather than systematic approaches. Regardless of the ultimate approach, checks and balances must be in place within companies such that decisions are 'owned' by strategic and responsible personnel. An absence of a systematic approach led by strong leaders can make it more challenging to overcome institutional and cultural inertia (eg in favour of big kit engineering approaches), or embed a holistic approach that evidences to stakeholders that the full range of assets and models for service delivery have been considered when making decisions.

Collaboration and Competition

To make the best use of capital requires both collaborative and competitive approaches. There are no definitive answers to what is appropriate; this needs to be viewed on a ‘case by case’ basis. The issues can depend on the sector, whether a company is a natural monopoly, market position, where a company sits in the value chain, ownership structure, investor risk appetite etc.

The relative lack of sector and cross-sector collaboration in utilities tends to be viewed as a consequence of the sectors' respective regulatory regimes and of competition law. In our research, we have found that public utility companies do recognise the benefits of collaborative working and of forming productive partnerships – both within and without their sector – to drive improvements for consumers and citizens. However, our findings indicate that the regulatory preference for comparative regulation frequently ultimately rewards competitive approaches over collaborative ones.

Companies can do more to collaborate within existing frameworks, but a more flexible regulatory framework is needed in some areas to encourage and facilitate this.[39] This section's deep-dive case study on the Thriving Communities Partnership, for example, illustrates the scale of what can be achieved when companies across sectors – including utility companies – come together with a common aim, albeit in a different country.

As with so many other issues, however, it is Covid-19 that has really lit the fire here – demonstrating urgently the need for businesses to speak with a common voice and act together to achieve positive outcomes for customers. This has been demonstrated through:

- The joint government and energy industry framework for supporting customers in vulnerable situations

[36] See SASB, 'Electric utilities: research brief' (March 2016) and 'Water utilities: research brief' (March 2016).
[37] Embankment Project for Inclusive Capitalism (EPIC) report (November 2018), p.90.
[38] World Economic Forum, 'Towards common metrics and consistent reporting of sustainable value creation' (January 2020).
[39] See our forthcoming paper on policy and regulatory frameworks.

announced in March 2020, in which companies agreed to a common set of principles for identifying and prioritising those at risk, helping those financially impacted by the virus, and supporting prepayment customers.[40]

- Building on the water industry's long-standing mutual aid arrangements[41], their assistance in the Covid crisis for the business retail sector, when sudden falls in demand coupled with low margins led to cash flow shortfalls.
- Arrangements in telecoms for collaborative approaches to NHS requirements.

In some cases, these collaborative approaches were brokered with the help of the regulators, but they still show a coming together of the sectors and joint working and may provide learning and impetus to future approaches – speeding up decision making in areas where this has previously sometimes been 'glacial'.

We are also seeing companies themselves taking meaningful collaborative action, perhaps encouraged by messaging from regulators that companies should be 'learning lessons from each other and seeking to drive up the standard of support to those unable to pay their bills'.[42] One notable example – an energy and water cross-sector Covid-19 community fund – is covered later in this section.[43] Finally, we have also seen strong messaging from collaborative bodies such as the Energy Networks Association to communicate to customers in vulnerable circumstances, in particular circulating PSR information and providing information on initiatives available to those customers who are shielding.[44] Whether this kind of meaningful collaborative activity continues beyond the virus – and whether these collaborative models can be adapted to deal with longer-term challenges, such as meeting Net Zero, where coming together will be vital – will be a key test of companies who seek to develop and embed a Sustainable Licence to Operate approach in their businesses.

[40] Department for Business, Energy & Industrial Strategy, 'BEIS / domestic energy supply companies: agreement' (March 2020).

[41] Mutual aid is the agreement among water companies to assist each other with things like bottled water supplies and technical expertise in crises such as a major localised outage

[42] Ofwat CEO, Rachel Fletcher, in Water Briefing, 'Ofwat sets out expectations for water companies in COVID-19 coronavirus emergency' (March 2020).

[43] See 'Covid-19 Collaborative Community Fund', p. XX.

[44] See Energy Networks Association, 'We're keeping your energy flowing'.

Pre-Covid-19

Post-Covid-19

Deep Dive: Collaboration on Consumer Vulnerability

Thriving Communities Partnership

Background: Thriving Communities Partnership (TCP) is a member funded cross-sector collaboration hosted by Yarra Valley Water ensuring that everybody has fair access to the modern essential services they need to thrive in contemporary Australia: including utilities, financial services, telecommunications and transport. TCP always has the human at the centre of everything they do, it aims to build more resilient communities and stronger businesses. It was originally driven by the water industry and its propensity to collaborate for community benefit, TCP brings together over 170 organisations from ASX listed companies, government and regulation, and the community sector to solve critical social problems in partnership.

Hardship and vulnerability: Despite an estimated $500 billion being spent annually on health, welfare, education and housing, millions of Australians are still living in, or on the edge of, financial vulnerability or poverty.

- More than 60% of the population are experiencing some level of financial stress;
- 13% of the population experience severe or high levels of financial stress; and
- 43% pay bills on credit because they don't have the cash flow;
- However, less than 1% of the population are accessing corporate hardship programs.

From water to beyond: Yarra Valley Water (YVW) is the largest retail water corporation in Melbourne, in the state of Victoria, Australia. They are government owned and provide essential water and sanitation services to more than 1.8 million people and 50,000 businesses in the northern and eastern suburbs of Melbourne.

In 1998 a report was released call the "Unfair Deal" that highlighted many problems that existed in the utility sectors where people were not being supported to pay their bills and as a result were having to make choices around paying utility bills over food and medical expense. This was a trigger for YVW to look internally to understand the impact they were having on customers who were unable to pay the water bills. This was a catalyst for YVW to make a fundamental shift in how they worked with customers. YVW implemented a comprehensive customer support program WaterCare, that was co-designed with customers and the community sector - with a focus on maintaining customer respect and working out a solution based on the individual's capacity to pay. This approach transformed the conversation into being on focussed on what would work for the customer, rather than what was required by the organisation. In addition, YVW formed partnerships with community sector organisations to provide additional support such as financial counselling for their customers. As a result of this support model which continues to evolve based on new insights into the underlying causes of financial vulnerability, 90-95% of customers meet their payment plans. The program was cashflow positive on year two and has received many recommendations from regulators and a Prime Minister Award.

Yarra Valley Water is recognised in Australia as having a leading practice approach to supporting customers experiencing vulnerability. They shared learnings and collaborated across the water industry for broader improved community outcomes and were then approached by other industries and sectors. A strong recognition of the need for collaboration and partnership across industries and sectors was recognised and in 2016 YVW hosted a Vulnerability Roundtable. 130 representatives from business, government agencies and the community sector met in Melbourne Together it was realised that working in parallel isn't enough – the only way to bring significant change to the root causes of poverty and vulnerability was to work together in new ways. There was clear need to collaborate across sectors. This Roundtable lead to the creation of the Thriving Communities Partnership.

Thriving Communities Partnership

Connect. Collaborate. Impact.

Thriving Communities Partnership

The TCP approach: Thriving Communities Partnership (TCP) is a member led and funded cross-sector collaboration that was driven out of the water industry's propensity to collaborate on community issues. TCP mission is to ensure that everybody has fair access to the modern essential services they need to thrive in contemporary Australia: including utilities, financial services, telecommunications and transport. TCP always has the human at the centre of everything they do, it aims to build more resilient communities and stronger businesses by fostering and facilitating collaboration between business, government and community organisations to tackle issues of vulnerability and hardship. TCP is grounded in the partnership methodology developed by the Partnership Brokers Association, which includes the principles of Diversity, Equity, openness, mutual benefit courage. The philosophy behind working cross-sectoral is that only by harnessing diverse resources, expertise and perspectives will there be an ability to tackle the complexity of inequality and vulnerability. One company or sector working alone will not create a transformation adequate to benefit all those in need. If we are to ensure adequate and consistent support is provided by service organisations to customers experiencing vulnerability we must leave competition at the door and attack the problem from several angles by working towards the following goals: Advocating and growing the movement to increase the number of organisations enrolled in the cause; Building capability and capacity of organisations to ensure we are better together; Brokering partnerships to provide integrated solutions; and Aligning and connecting access to support to create systemic change.

Family Violence Roundtable and Report: In November 2018 the annual TCP Roundtable event was held with more than 170 participants from across industries and sectors. The event brought to life research completed by a TCP partner and was presented through the lens of advocates with lived experience. It challenged participants to empathise and to collaborate across community, government and private industries to come up with ways to improve outcomes. The report captures these insights and provides recommendations on how organisations can take action to ensure they are better supporting customers and employees who may be impacted by family violence.

One Stop One Story Hub: The One Stop One Story Hub grew out of a realisation across TCP partners that customers had to explain their situation to numerous different organisations that had varied approaches, criteria and information requirements. The Hub enables customers to access tailored support in a holistic, simplified and dignified way by registering their information and once and connecting into all of the available programs relevant to their circumstances. A concept design has been completed and a roadmap is under development for implementation.

Cross Referral Pilot: Aiming to simplify access, this pilot has seen Yarra Valley Water partner with an energy company to cross refer mutual customers needing access to hardship support, this is only done where there is informed consent from the customer. There have been learnings from the pilot from a cultural, policy and process perspective that will be shared with partners with the aim of bringing other industries such as banking into the program.

Lessons learned:

- There needs to be trust in the lead organisation and a proven track record of better practice in areas of working with customers experiencing vulnerability.
- Being member-led – Creates ownership by allowing members to drive and shape the agenda. The more you allow this, the easier it is to spread the workload and costs efficiently across organisations.
- Support your key contacts – Inside each organisation are key people who are driven to achieve the SDG goals. Listening to them and supporting them in their role within their organisation will also grow their engagement with your cause.
- Executive buy in is critical to success – Organisations are at different levels of maturity and therefore there is often a large commitment required to make the changes needed to ensure businesses are putting customers experiencing vulnerability at the centre of their decision making and program design.
- Always hold to the fundamental scope, values and principles of the organisation, this ensures greater clarity and trust in the vision.

Thriving Communities Partnership
Connect. Collaborate. Impact.

Further Case Studies and Lessons Learned

Cadent: HyNet & HyDeploy

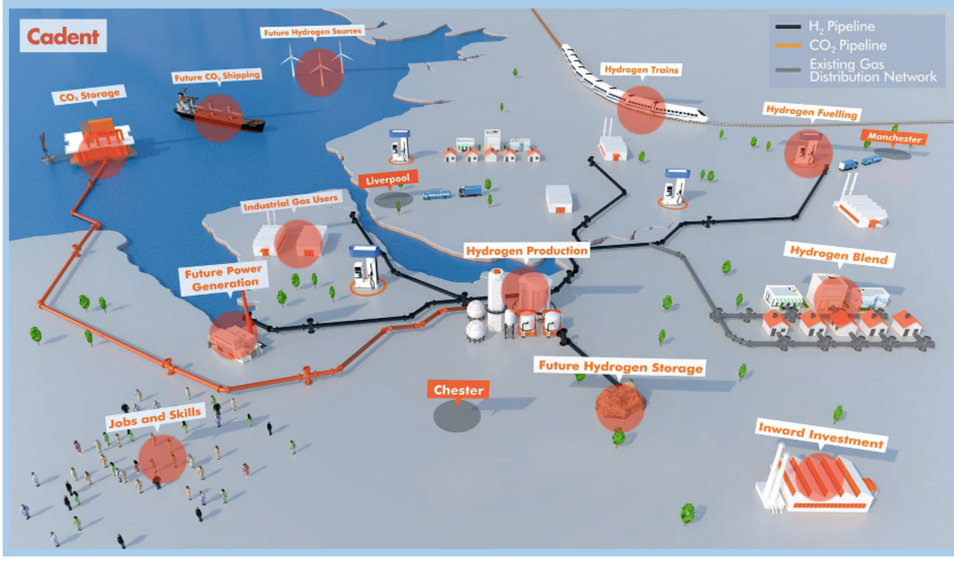
Background: Cadent was officially created in 2017 after the sale of National Grid's gas distribution business. Cadent connects 11 million homes in the UK through its gas pipes, operating in North West England, the West Midlands, the East of England, and North London. The business recognises that the decarbonisation of transport and heat represents a huge national challenge and given its large size and the fact that 83% of the UK population still depends on gas heating, Cadent is in a prime position to do something about this.

HyNet: HyNet is a Carbon Capture Use and Storage (CCUS) project in North West England with a projected timescale to 2026 and an operational first phase by 2024. Its goal is to reduce emissions and promote economic growth based on the production of hydrogen through both new and existing networks, and to facilitate a move away from natural gas predominantly by large industrial users. The project is collaborative, Cadent working with a range of different organisations as well as key political stakeholders both regional and national, from metro mayors to the Department for Business, Energy & Industrial Strategy, in order to achieve a common goal.

This is important in the context of companies feeling constrained by a regulatory regime of comparative competition, in which each of the Gas Distribution Network (GDN) companies have been trying to get a head start on one another to become the UK's first hydrogen cluster. Instead, Cadent believes it is important to think from a whole systems perspective rather than acting in a segmented way or as competitors.

HyDeploy: The HyDeploy project, meanwhile, is about blending hydrogen into the existing natural gas network and the reuse of assets in the most efficient way without disruption. The project is being trialled in Keele University and is a collaboration with Northern Gas Networks. Working in a collaborative spirit, the companies have taken a mature approach to defining roles and responsibilities, especially on issues such as which company leads on live trials. Both companies are trying to foster a common goal and intent, working through different organisational hierarchies and dealing with issues of capacity and focus.

In the event of HSE approval and the success of the Keele trial, the HyDeploy project will move into its second and third phases in the early 2020s, with the ultimate common strategic goal of helping to meet the UK government's legislative target to deliver Net Zero by 2050.



Source: HyNet.co.uk

Yorkshire Water: Sustainable Six 'Capitals' Accounting

Source: Yorkshire Water, ['The six capitals in our Decision Making Framework']

Background: Yorkshire Water supplies water to over 5 million people every day across Yorkshire. Driven by a recognition that traditional reporting methods were not capturing the entirety of a utility company's risks – especially those around the environment and natural resources – the company has adopted a new method of 'sustainable accounting', working with organisations like the Cambridge Institute for Sustainability Leadership (CISL), Accounting for Sustainability (A4S) and the Natural Capital Coalition to quantify the impacts of Yorkshire's work on its financial capital, human capital, manufactured capital, intellectual capital, natural capital, and social capital.

Embedding a 'capitals' approach in business model and decision-making: Yorkshire has worked to embed an approach incorporating the six types of capital in its business model, whereby these inputs underpin the company's day-to-day operations. In particular, the capital types form the basis of Yorkshire's cross-business Decision Making Framework (DMF) first put in place for the PR19 price review. This helps to quantify the various risks and values associated with the capital types – doing so in monetary terms, therefore allowing for comparison and in turn helping to inform the business's investment and management decisions. Yorkshire's DMF document contains the following worked example of the process:

Worked example: bathing water quality

The service measure 'deterioration in bathing water quality' is measured as the number of bathing waters deteriorating in classification on the Environment Agency's scale (Excellent, Good, Sufficient, Poor): for example, a drop in status from 'Good' to 'Sufficient'. The values used to determine the cost of a deterioration in status of one bathing water in a given year are:

Capital	Impact category	Impact definition	Cost
Natural capital	Recreation	Value of lost recreation opportunities.	£734,979.00
	Non-use value	The value people place on natural resources continuing to exist, or being available to others – even when they don't use them themselves.	£341,240.25
Human capital	Local economy	The value of the deterioration in classification to businesses.	£221,465.72
Financial and manufactured capital	Private costs of failure	The cost to Yorkshire Water of dealing with the consequences of the deterioration (e.g. investigation of the cause, loss of reputation), excluding the cost of remediating it.	£26,331.81
Total			£1,324,016.78

Source: Yorkshire Water, ['The six capitals in our Decision Making Framework']

New approaches to value:
In addition to this emphasis on capital, Yorkshire has also adopted Total Impact and Valuation Assessment (TIVA) to quantify its broader impact in terms of sustainability and the six capitals. These measures are then communicated to stakeholders in a document titled 'Our Contribution to Yorkshire', setting out 'the impact [Yorkshire has] and the value [it creates] for society'.

YorkshireWater

National Grid ESO & United Utilities: Collaboration on DSR

Background: National Grid ESO, the Electricity System Operator of Great Britain, has teamed up with United Utilities, water provider to more than 3 million homes and businesses in the North West of England, to determine whether additional flexibility on the electricity system can be provided from demand-side response (DSR) in the water sector.

Enhancing energy flexibility from wastewater catchments – a whole system approach:
The project is set to last for 18 months and represents the first time an electricity company has collaborated with the water industry in this way. It has been part-funded by Ofgem's Network Innovation Allowance with additional contribution from United Utilities. With water companies being some of the largest energy consumers in the UK, National Grid ESO has identified the sector as a suitable contender for DSR – whereby large energy consumers alter their consumption patterns or switch to self-generation in response to demand on the system.

Broadly, the project 'will look to prove/disprove the theory that providing demand-side flexibility through controlling a whole wastewater system is more cost-effective than focusing on a single asset or process, using existing assets' ('Water company collaboration first for National Grid ESO' (March 2019)). United Utilities is building on its ‘systems thinking’ approach for the project by understanding and optimising its networks alongside the requirements of other network companies, such as the ESO and local distribution network operators.

Objectives:
The objectives of the project as follows:

- To assess the technical potential for demand-side flexibility within a single wastewater catchment area when operating all assets as part of a wider system;
- To identify technical enhancements needed to operate individual assets as part of a wider system;
- To assess the business case for providing flexibility services via the systemic method of operating assets within a wastewater catchment area; and
- To support dissemination of any learning to water utilities, as well as other networks, to encourage deployment of this technology across GB if the project demonstrates technical and commercial feasibility.

Source: ENA Smarter Networks Portal

Western Power Distribution: Collaboration Amid Covid-19

Background: Western Power Distribution (WPD) is the electricity distribution network operator for the Midlands, South Wales, and the South West. The company delivers electricity to over 7.9 million customers over a 55,000 square kilometres service area and employs over 6,500 staff.

Local collaboration: Prior to the Covid-19 outbreak, WPD already had in place substantial collaborative programmes with a range of local and charitable partners – including around 50 stakeholder collaborations that came directly out of the company's stakeholder engagement process. The engagement process showed that while there are great large organisations working to combat customer and citizen vulnerability, it is often smaller partners that best deliver the things customers and stakeholders most value. WPD's aim is to deliver long-term sustainable commercial partnerships that allow often small organisations to thrive and deliver, and which also deliver mutual benefits to WPD, its customers, and stakeholders. WPD in turn helps these organisations to learn and develop the capacity they need to grow. This collaborative process is a routine part of WPD's business planning process.

Post-Covid partnerships: Following the outbreak of the pandemic, WPD has committed to coordinate and fund over 50 existing partner agencies to deliver coronavirus support to vulnerable people living in isolation – as well as providing local authorities and resilience forums with support to help the targeting of services. WPD has written to every local authority, Local Resilience Forum, and utility provider in its region to offer to share vulnerable customer data where possible (in compliance with GDPR) to help them identify the most in need. The business has so far shared over 700,000 records as part of this process.

Collaboration on fuel poverty: In addition, WPD's existing Fuel Poverty programme has been re-scoped to assist customers vulnerable due to Covid-19. Under normal operating conditions, WPD funds a number of charities and community groups to deliver energy saving and tariff switching advice to support customers living in cold homes and struggling to afford their energy – including delivery by Citizens Advice in Coventry and Derbyshire in particular. At this time, WPD is continuing to fund these partners, but it has asked them to widen their support beyond energy advice to look at other ways of supporting vulnerable customers. Such activities include providing befriending support and actions such as delivering shopping and prescriptions to those customers they know are most isolated and vulnerable at the moment.

In This Together – Community Matters Fund: To specifically support vulnerable people impacted by coronavirus in its communities, WPD has also established an additional £500,000 'In This Together – Community Matters' Fund to support community organisations helping vulnerable customers and their families who need extra help during the pandemic. It has directly funded support to over 400,000 vulnerable people, working with 300 charities and community groups. The fund is set to continue an extra £250,000 of additional funding. The company will also be asking the 183 MPs in its region to nominate deserving causes in their constituencies that are delivering vital community support during the pandemic.

WESTERN POWER DISTRIBUTION

Serving the Midlands, South West and Wales

Covid-19 Collaborative Community Fund

Background: In April 2020, during the immediate coronavirus pandemic crisis period, eight utility companies from across the energy and water sectors, representing a range of different regions, came together to offer £500,000 in funding to local community and charity foundations.

Frontline resilience: The companies prioritised this funding in such a way that it has maximum impact, getting to frontline community organisations where it is most needed as quickly as possible.

Flagging PSR support: Company press releases on this joint community fund also carried information on and links to other collaborating parties' Priority Service Register (PSR) offerings so that customers in vulnerable circumstances, such as pensioners, disabled people, or people living with dementia, can access free extra support – regardless of their water supplier.

Further Covid-19 responses: This collaborative fund has not precluded these utility companies from offering additional support in the aftermath of the pandemic, whether to customers, communities, or their own key workers. UK Power Networks, for example, has launched an app to combat social isolation among its customers, with frontline workers offering support in helping them to get groceries, exercise at home, and sign up to the PSR. South East Water, meanwhile, has worked to prioritise the mental health of their key workers, offering practical advice and support through resources and staff workshops, as well as access to 30 specially trained mental health first aiders.

Collaborating parties	Areas supported	
South East Water	Bedfordshire & Luton	Buckinghamshire
UK Power Networks	Cambridgeshire	Oxfordshire
Thames Water	Surrey	Hampshire & Isle of Wight
SGN	Essex	Berkshire
Southern Water	Kent	Wiltshire and Swindon
Anglian Water	Norfolk	Dorset
Affinity Water	Suffolk	Scotland
SES Water	Sussex	Northamptonshire
	London	Lincolnshire
	Hertfordshire	Milton Keynes

Portsmouth Water & Southern Water: Havant Thicket Reservoir

Background: Portsmouth Water supplies water to Portsmouth and a surrounding 868sq. kilometre area, encompassing a population of over 722,000 customers. Recognising the increasing demand for water due to climate change and population growth, and the concurrent need to take less water from rivers, Portsmouth and Southern Water proposed this collaborative project for a new reservoir, which seeks to capture reliable surplus water from the prolific Bedhampton Springs site with minimal impact on the environment, and to carry out a corresponding bulk transfer of resources with Southern Water.

Regional planning: Portsmouth Water has owned the land since 1965. The proposal is being acted on now partly due to a greater focus on collaborative working and regional planning – as highlighted by the Water Resources South East model of long-term planning that is now being replicated across the country. This approach encourages staff to think outside boundaries and provides a forum for a water company public service culture to be expressed. The project is an example of long-term best value planning as encouraged by the Environment Agency, further tying in with the National Policy Statement for Water.

'Burning platform': The project is being delivered in response to a 'burning platform': namely the impact that water companies recognise their extraction is having on internationally important areas such as chalk streams. This has led to fruitful conversations between Portsmouth Water, Southern Water, and regulators like the Environment Agency, and spurred projects such as the Havant Thicket Reservoir consultation. This is a live project with years to run, but its core approach is to build positive, effective, and trusting human relationships between those involved.

Protecting environment, wildlife, and biodiversity: The project identifies the preservation of the nearby natural environment and biodiversity as one of its top priorities – in keeping with an emphasis on the companies' natural capital assets. Plans for the reservoir include:

- The creation of a wetland site for roosting birds from the coast;
- Improved woodlands and the creation of wildflower banks;
- Provision of wildlife information boards to connect visitors with nature and wildlife; and
- A grant scheme to support other environmental projects away from the reservoir site itself.

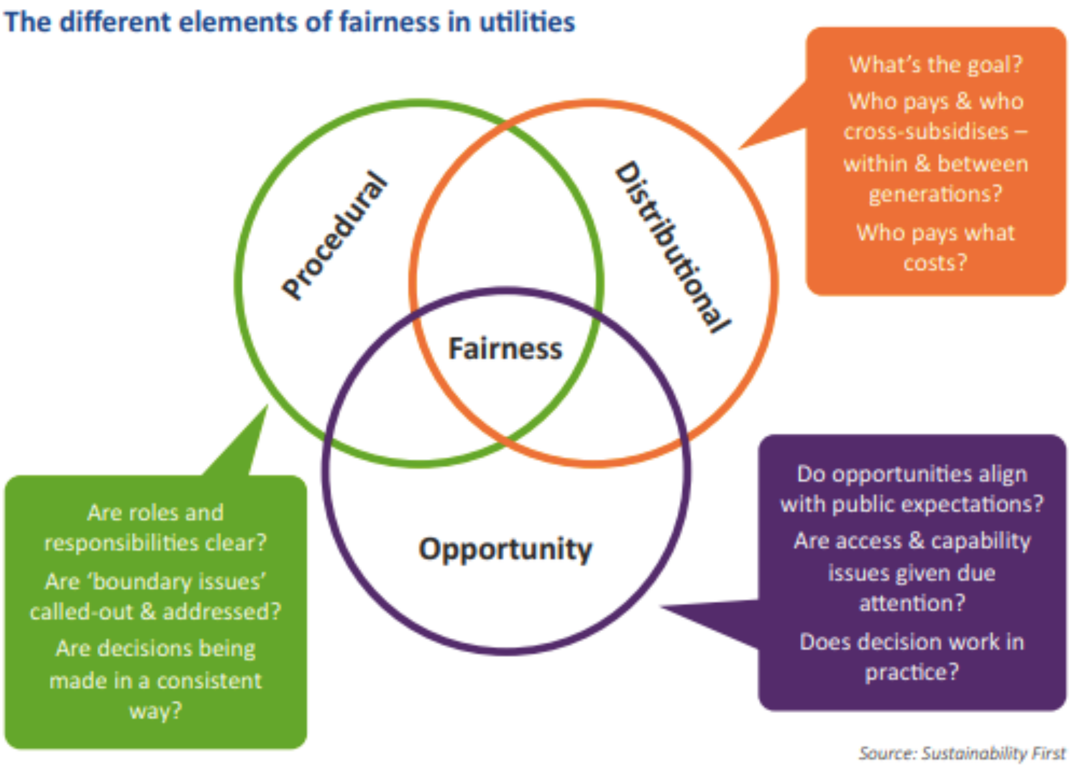
Source: https://www.portsmouthwater.co.uk/new-reservoir/

Pillar 3: Fairness – Expectations, Roles, & Responsibilities

A checklist for embedding fairness and clarifying roles & responsibilities in your company
✓ **Open, inclusive, and comprehensive stakeholder engagement**
▪ Are your company's stakeholder engagement processes as representative as possible of the customers, citizens, and communities you serve, and do you understand how their expectations are changing? ▪ Are there checks and balances in place to ensure that consumer challenge and wider engagement processes are sufficiently robust and independent of the company? ▪ When engaging with stakeholders, for example in carrying out willingness to pay research, is your company guided by the stakeholders – and not the other way around?
✓ **Strategic, long-term mapping of roles and responsibilities for fairness, addressing boundary or 'wicked' issues, and advocating for change**
▪ Does your company use tools such as 'customer journey mapping' in a strategic way to understand how current/future consumer touchpoints are changing and what this may mean for relevant fairness issues? ▪ Does your company proactively identify and map relevant areas for which others – e.g. government, policymakers, and regulators – might be responsible and have strategic conversations to ensure that roles and responsibilities are understood on all sides and issues don't 'fall between the stools' – if necessary 'calling out' any gaps so the problem isn't ducked? ▪ Does your company strategically map important long-term fairness boundary issues where responsibilities might overlap, e.g. on Net Zero, biodiversity, infrastructure rollout, or vulnerability? Having done so, are these matched to appropriate internal governance structures? And do you look to facilitate change and 'do the right thing' in areas even where formal responsibility might lie elsewhere – e.g. pushing government to enable rollout of EVs or to take the wider steps required for Net Zero delivery? ▪ Does your board and chief executive 'set the tone' when responding to boundary issues, investing sufficient time and resource to respond to difficult questions around fairness? ▪ Does your company have clear and transparent processes in place for dealing with 'wicked issues' that sit across a number of areas, roles, and/or responsibilities? And do you have in place the high-level leadership needed to navigate complex trade-offs and bring the required responsible actors together – thereby helping to address the causes, not the symptoms, of the problem?
✓ **Consistently apply purpose and values to company decision-making**
▪ Are your company's purpose and values aligned and consistent with achieving fair outcomes and fulfilling your duties of loyalty and care for your stakeholders? ▪ Are roles and responsibilities sufficiently clear within your company? Are staff empowered within their remit to apply your company's purpose in a consistent manner, navigating complex trade-offs and making fair day-to-day decisions in the interests of customers and communities?
✓ **Transparent decision-making processes and customer communications**
▪ Are your company's decision-making processes sufficiently robust and transparent? ▪ Can your company transparently explain the basis on which it shares risk and reward – e.g. executive remuneration, returns, dividend policies, community rebates etc? ▪ Is your company's reporting tailored to meet different stakeholder needs and interests?
✓ **Encourage 'innovation for all'**
▪ Is your company comfortable 'putting its head above the parapet' in encouraging fairness from others, taking action to build the capabilities of stakeholders to change?

Source: Sustainability First

Delivering and Embedding Fairness



Acting in a 'fair' way is clearly crucial to developing, establishing, and embedding a Sustainable Licence to Operate in public utilities. However, 'fairness' itself is an amorphous term that can mean different things to different people – not least in the context of energy, water, and telecoms, where there has been much discussion of what is and is not 'fair',[45] as well as what roles and responsibilities various parties (governments, regulators, companies, citizens, customers and consumer groups) should have in terms of securing the delivery of 'fair' outcomes.

Even before Covid-19, the pendulum had shifted in terms of public expectations around fairness – both in terms of insecurity and inequality, but also in terms of environment – from fair markets to fair outcomes. This public shift has accorded with a broader political shift, with all parties becoming more explicit not simply in their commitment to fairness, but also in their resolve to intervene in the economy to ensure it. The pandemic has thrown these issues into even sharper relief.

With an emphasis on fairness as relational and intergenerational, we have stressed that the concept of fairness in the utilities must have at least three interlinked dimensions: procedural fairness, distributional fairness, and fairness of opportunity. Further, we have proposed a series of possible principles for each of these that companies can adapt to their sector / the issues in hand:

- for process, that the greater the a) distributional impacts and b) degree of ethical or political judgement, the greater the importance in the decision-making process of accountability, transparency, and consistency – and the decision maker having a democratic mandate;
- for distributional fairness, that costs should be met by those who benefit from the service, are best able to manage the risks, and cause pollution, and that a joined-up and cumulative approach to long-term fairness and affordability is needed; and
- for fair opportunities, that a focus on delivering long-term public interest outcomes can help identify emerging

[45] Away from the Fair for the Future project, for example, see Sustainability First, 'What is "fair"? How should we pay for the energy system of tomorrow?' (September 2019).

boundary issues and discover the mutual interests or co-benefits that may help overcome these, and that strategic current and future customer journey mapping can further clarify roles and responsibilities.

It is not for utilities to 'solve' issues as significant as inequality, intergenerational imbalance, and unfairness. Clearly, these are areas for government, policymakers, and regulators as much as (or more than) for boards and executive teams. Just as a company adopting a Sustainable Licence to Operate approach to fairness will review and renew its governance and operational arrangements to better align the interests of investors and other stakeholders so must government take greater responsibility for the cumulative distributional, regional, and intergenerational impacts of its decisions, and so must regulators ensure fair and consistent processes for their respective sectors.

Public utilities, as regulated providers of essential public services, must however have a large role to play – and even within the constraints of their respective price controls and other regulatory processes do have scope to take greater action. And where companies perceive there to be boundary issues where roles and responsibilities are blurred or unclear, they can play a unique role in clarifying where action must be taken, advocating strongly for change in areas that correspond to their business or sector.

Framing 'Fairness' in Public Utilities – Expectations, Roles, and Responsibilities

Key issues	Challenges	Opportunities
1. How are future roles framed?	• 'Rear view mirror' • Ad hoc and piecemeal approach – primarily through price reviews, set piece decisions, etc. • Short-term outcomes for individual organisations	• Focus on long-term public interest outcomes for sectors and systems • 'Future antennae' • Strategic and cumulative approach
2. How are remits set and exercised?	• Silo-based • Limited governance of 'boundary issues' • Rigid interpretation of duties, licenses, etc. – 'Not my responsibility'	• Cross-departmental and/or cross-sector join-up • Clear schemes of delegation – within and between organisations • Advocacy and 'calling out' or signposting where issues are not within organisation's remit
3. How do roles align / interests balance?	• Focus on individual and organisation's interests • Lack of accountability and transparency in process – or this is delegated to 'technical' processes	• Focus on mutual interests • Strategic, systematic, and 'legitimate' stakeholder engagement shapes process
4. How do roles flex / cope with change?	• Top-down, wait-and-see changes to roles • Roles determined by homogeneous groups drawn from largely quantitative disciplines (engineering, accountancy, economics, etc.)	• 'Nail down' big decisions as far as possible to minimise uncertainty • Decisions around roles *to some extent* 'pushes down' and decentralised or distributed • Cognitive diversity and making full use of interdisciplinary skills in decisionmakers
5. Practical implementation	• Short-term and adversarial	• Constructive behaviours • Nested governance emphasises common grnd. • Consistent application of principles

Source: Sustainability First

Pre-Covid-19

Post-Covid-19

Deep Dive: Fairness in Social Housing

Peabody Group

Background: The Peabody Group is a housing association with a 150-year plus history. Housing associations are not for profit organisations set up to offer affordable accommodation to low income households. They are regulated by the government and restricted by legislation in their activities; for example, the rents they can set. The vast majority of housing association tenants come via local authority waiting lists, and housing associations have "nominations agreements" with local authorities giving them rights to vacant properties in their area.

Purpose: Peabody's purpose is inspired by two great social movements:
1. George Peabody's vision of providing safe and affordable housing for the working poor of Victorian London, and
2. Grassroots community action in response to the 'Cathy Come Home era' of poor-quality housing in post-war Britain led by organisations like Family Mosaic.

Merger: The merger of Peabody and Family Mosaic in 2018 gave rise to a new Group, which has 66,000 homes in London and the South East and 16,300 care and support customers. They also deliver an extensive range of community programmes. The Group is funded by rental income and cross subsidy from development, as well as reserves and debt in the form of long-term bank loans and private and public capital market bond finance. This is invested back into maintaining and improving existing homes, providing support and services to the community, and developing new social homes. Their board includes executive and non-executive roles and has Resident Representatives. They currently have two resident board members, both of whom were recruited on a skills basis. Peabody has two main formal resident groups:

- The Scrutiny Panel undertakes scrutiny reviews of specific service areas and reports into the main board.
- The Strategy and Policy Panel ensures strategies and policies reflect resident concerns and that, where appropriate, residents have been consulted.

Members are recruited to the panels using a skills and training matrix, and the resident chairs (and other residents) play a role in recruitment. The Panel Chairs attend main board meetings annually.

Mission and Priorities: Following the amalgamation in 2018 extensive work was done to develop the mission and priorities of the new body, which states: *We are here to help people make the most of their lives. We do this by developing and delivering reliably good modern services, building and maintaining the best quality developments, working with local communities and building long-term partnerships, and using our position of influence to create positive change.*

More information on their mission, priorities and values can be found here. Building on this work, Peabody published a Group Strategy, 2019-22. This is now being refreshed to reflect emerging priorities. The amalgamation provided the impetus and need for this new strategy and, as part of this work, their Board, Executive, and Strategy team challenged the assumptions and approaches in the old organisations and carried out detailed analysis and stress testing to inform and develop the plans for the new combined organisation.

In addition, they carried out research to better inform them about the needs of their tenants and the communities in which they live. In March 2020 they published their latest Peabody Index focusing on London's Childcare Challenge. The index is now tracking the social and economic impact of Covid-19 on low income Londoners, and the first bulletin will be published in July 2020.

Peabody

Peabody Group

Of particular note is Peabody's priority to put the most vulnerable first and to provide the support they need. This underpins their priorities and their drive to provide great places for people to live. The following examples illustrate this point.

Social Rents: In 2018 Peabody decided to freeze or cut rents on thousands of its homes below the level they were able to charge under the legal framework in which they operate. They wanted to provide more social housing at the lowest rents possible to meet the needs of people in their communities. They also recognised that the housing benefit bill was more than £25bn a year and that higher rents were not just a burden for their residents, but also for the general population and the government. They did this with a commitment that service standards to tenants would remain the same but knowing that it would impact on their finances and could mean they have less money to bid for new land and develop it. The work on developing this was led by a Senior Manager with a cross-functional team considering the issues in detail and how the decision could be implemented effectively. Detailed analysis and stress testing were done to fully understand the ramifications before the Board made the decision.

Lifetime Tenancies: Fixed-term tenancies were introduced by legislation in 2011. The idea behind them was that people's needs would change over time and that having fixed term tenancies would enable housing associations to assess this better and to utilise their stock more effectively. Detailed analysis by the Peabody strategy team demonstrated that there was no evidence that fixed-term tenancies enabled the allocation of homes to be managed more effectively. They concluded that they caused uncertainty for residents and were unnecessarily onerous to administer for landlords. For example, if, at the end of the fixed term the landlord was going to properly review the need for a property of that size to be allocated to that tenant, then this needed to be done well and have adequate resources allocated to it. They therefore stopped issuing fixed term tenancies with effect from 1 March 2019.

'Children's Community' Pilot in Hackney: Peabody is the owner of an estate in Hackney transferred from the local authority in the 90's. Over a 10-year period Peabody made significant investment in the physical and community regeneration of the area. However, the local perception of the estate and the life chances of people living there remained the same. In 2010 Peabody commissioned the University of York to look at Child Poverty levels on Peabody estates across London. In 2011 the estate in Hackney was impacted by the riots at the same time Peabody was responding to the recommendations of the University of York report. The estate was therefore chosen as the first pilot for a 'Children's Community'. Based on the Harlem Children's Zone model, the programme looks at how to engage and support children, young people, and their families across home, school, and community.

The aim was to improve life chances of children and young people living on the estate and to improve the outcomes for people in the area. Peabody recognise they have a key role as a place maker and to work with key stakeholders and residents to develop and implement a shared strategic direction. It was imperative that the local authority was involved and supportive to reinforce the legitimacy of what was being proposed. They also worked closely with Save the Children to ensure that the varied support available to children and families was well integrated and easy to access. They carried out extensive engagement with local residents to understand their needs and wishes, to develop shared desired outcomes, and to mobilise the local community. A key learning point is that there is an absolute need to understand where any stakeholder is coming from and what they want to get out of the dialogue before you start. For example, there is no point in seeking views on critical components of a development if the tenants want to discuss problems and concerns about income.

Peabody

Further Case Studies and Lessons Learned

SSE: Fair Tax & Fair Work

Background: SSE is a listed FTSE100 company and one of the largest electricity network companies in the UK. The company develops, owns and operates low carbon infrastructure to support the zero-carbon transition – including onshore and offshore wind, hydro power, electricity transmission and distribution grids, efficient gas and energy from waste, alongside providing energy products and services for businesses. SSE employs 12,000 people in the UK and Ireland.

Being Sustainable: SSE's purpose is to 'provide the energy needed today while building a better world of energy for tomorrow.' Sitting under this purpose is the business's strategy, which is divided into four key strategic pillars: focusing on the core; developing, operating, owning; creating value; and being sustainable. The fourth strategic pillar on sustainability includes four further fundamental business goals for 2030, which in turn are aligned to the UN Sustainable Development Goals (SDGs): climate action, to reduce the carbon intensity of electricity generated by 50% by 2030; affordable and clean energy, to develop and build by 2030 enough renewable energy to treble renewable output; industry, innovation and infrastructure, to build electricity network flexibility and infrastructure to accommodate 10 million electric vehicles by 2030; and finally decent work and economic growth, to be the leading company in the UK and Ireland championing Fair Tax and a real Living Wage.

> 'SSE is a Fair Tax Mark company because tax is core to the social contract between profitable companies and the society they serve.'
> Gregor Alexander, SSE Finance Director and Chair of SSEN Board

Fair Tax: In 2018/19, SSE gained the Fair Tax Mark for the fifth consecutive year. The Fair Tax Mark is an independent accreditation to certify that organisations are paying the right amount of tax, following the spirit and not just the letter of the law, and not abusing tax havens or tax avoidance schemes. SSE is the first FTSE100 company to achieve the certification. As part of its business goal to be the UK's leading company championing Fair Tax, the business continues to make the case that tax is the fundamental way in which businesses contribute to the societies that enable their business success – including by promoting Fair Tax principles to Ofgem. As a large, broad-based energy company, SSE is one of the UK's largest taxpayers, ranked 26th out of 97 participating companies in PwC's Total Tax Contribution 2018 Survey for the 100 Group.

Fair Work: In addition to a commitment to Fair Tax, SSE is also committed to Fair Work for its employees. Stressing the importance of the business's human capital, it has vocally advocated for the Living Wage since becoming an accredited Living Wage employer in 2013. In 2018/19, SSE also joined the UK-wide Living Hours Steering Group to advise the Living Wage Foundation on its Living Hours initiative, which aims to set a new standard to reduce under-employment and insecurity around working hours.

sse

Scottish & Southern Electricity Networks

Thames Water: Fair Access to Nature during Covid-19

Background: Thames Water is responsible for taking care of the water for 15 million people across Greater London and the Thames Valley. Walthamstow Wetlands is its flagship community project developed with funding from the National Heritage Lottery Fund and with its partners – the London Borough of Waltham Forest and London Wildlife Trust.

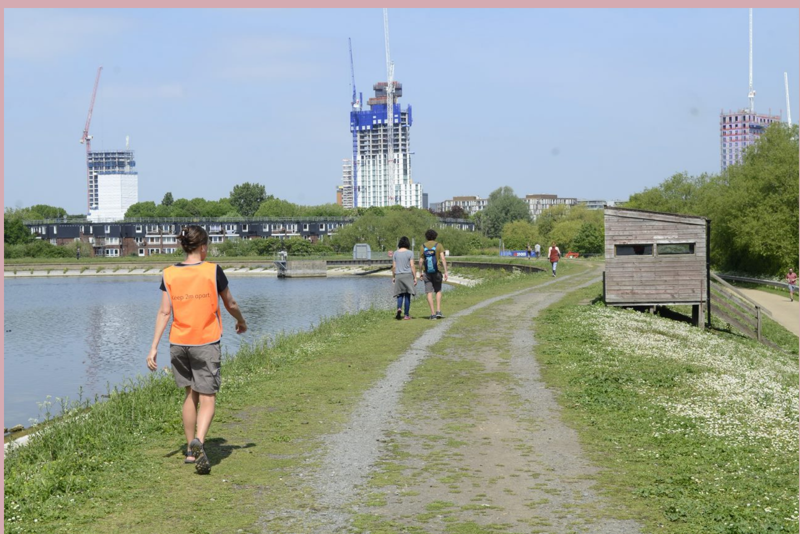
Walthamstow Wetlands: At 211 hectares, Walthamstow Wetlands nature reserve is the largest urban wetlands nature reserve in Europe. Its 10 working reservoirs supply 3.5 million Londoners daily with water. The team on site deliver education and environmental volunteering programmes and recreational activities such as angling and birdwatching, and the site's network of paths makes it ideal for walking and cycling. Since opening in October 2017, the Wetlands has welcomed one million visitors who enjoy the rich biodiversity on site, and it is recognised both nationally (SSSI) and internationally (Ramsar) for its bird populations.

Fair Access to Nature during Covid-19: Thames Water has an awareness that providing recreational access to its sites can have a positive contribution to local communities, benefitting the health, wellbeing and quality of life for residents and visitors. In particular, the company recognises that many of the population in the area around the Wetlands live in flats and do not have access to their own outdoor space.

With this in mind, when lockdown was announced in March, Thames worked closely with its partners to put in measures that allowed the site to remain open throughout for fresh air and exercise, whilst following social distancing guidelines. The company encouraged the local community to take ownership for using the site in a way that ensured it could remain open throughout, with posters reminding visitors of the social distancing measures they needed to follow and provided additional staff on site to remind visitors of the guidelines.

These measures have been successful and are reviewed daily. Since the start of lockdown, the Wetlands has welcomed almost 170,000 visitors (a 50% increase on last year) to the site at a time when many other parks and nature reserves were closed, and in some cases still are. The company decided not to publicise this, as the site was already hosting the maximum number of local people it could handle, and it did not want to risk drawing in more visitors from further away. Following the change in guidance in May, the Wetlands reopened its recreational fishery on site and has welcomed many new or returning anglers as the options for outdoor activity still remain limited.

The neighbouring area is undergoing considerable regeneration and the proportion of the population without access to their own outdoor space is going to increase over the coming years, with Thames therefore committing to support the Wetlands to keep it open and free to all.



Social distancing at Walthamstow Wetlands

Source: Thames Water

BT: Fairness, Inclusion, and Connectivity during Covid-19

Background: The coronavirus pandemic has meant we are all now significantly more reliant on our telecommunications infrastructure, whether for remote working or for keeping in touch with vulnerable neighbours, friends, and family. BT as the UK's largest provider of broadband and mobile services therefore has a huge role to play in terms of the national Covid-19 response and recovery. To this end, the company has undertaken a range of initiatives to support its customers, as well as citizens and communities more widely. BT's response to the covid crisis, and more widely, is drawn from their corporate purpose – to use the power of communications to make a better world – and a conscious purpose-based leadership approach from their CEO and executive team.

Keeping the UK connected: BT's responses to the pandemic have been underpinned by a simple message of 'Keeping the UK connected', recognising the company's critical position in delivering and maintaining national infrastructure. In the initial stage of the coronavirus emergency, BT agreed with government, Ofcom, and other telecommunications providers to lift data caps on fixed broadband services – part of a coordinated sector-wide response to protect the industry's most vulnerable customers.

Within BT itself, strong leadership from Chief Executive and Board level reassured staff of their positions and committed the company to navigating the crisis fairly and sustainably. On 6 April, the Chief Executive announced that there would be no job losses for the foreseeable future, that 'team member' workers would receive a 1.5% pay increase while managers' pay would be frozen, and that he would donate his own salary for at least the next six months to NHS Charities Together and affected local businesses. The outbreak of the pandemic also coincided with the announcement of BT's annual results, where keeping the UK connected remained a central theme – the company announcing that it would suspend its dividend until 2021/22 (and reduce it by 50% thereafter) in order to help fund 20 million homes get access to FTTP broadband by the mid- to late-2020s.

Protecting vulnerable customers and boosting digital inclusion: Since then, the company has gone on to deliver a number of more targeted schemes to protect vulnerable customers and boost digital inclusion. In particular, with the majority of primary and secondary pupils in the UK still facing significant educational disruption and having to learn at home – and with disadvantaged students bearing the brunt of a 'digital divide' – BT has announced that it will deliver free internet access for disadvantaged young people to study at home. 10,000 families will benefit from this scheme, which is funded by BT and distributed by the Department for Education.

In line with this work, BT has also offered remote working guidance and support to consumers and businesses, and collaborated on an innovative solution to help equip more than 150 intensive care units with over 1,000 tablets, thereby allowing families to virtually visit their loved ones and keep in touch with

Pillar 4: Strategy and Narratives

A checklist for embedding strategies & narratives that 'ring true' in your company

✓ **Create positive long-term future roadmaps for your company and sector**
▪ How far is your company's strategic narrative aligned with its purpose and focused on the long-term, or is more short-term &, if applicable, trapped by your sector's price review cycle? ▪ Has your company engaged with others in the sector to chart a collaborative course into the future – recognising that providers of public services must work together to achieve their goals, and indeed risk being tarred with the same brush as lower-performing companies?
✓ **Strategically prioritise social/environmental outcomes, risks, and opportunities**
▪ Are social and environmental outcomes, risks, and opportunities treated as truly material to the company strategy? Do these risks feature prominently in your company's principal risk and uncertainty statement – going beyond health and safety, workforce, carbon, etc. to take into account a fuller suite of social and environmental factors? ▪ Does your company map, assess, and prioritise social and environmental risks and opportunities in senior fora – and are the interdependencies of these risks (e.g. greater impacts of severe weather events on vulnerability, uneven distributional impacts of Net Zero, etc.) accounted for?
✓ **Incentivise and operationalise sustainable company culture**
▪ Are employees, including senior strategic personnel and executive teams, incentivised in ways which align with the corporate culture your company is aiming for? ▪ Is your company's organisational design nested under strategy, and is it sufficient to manage social and environmental risks in the 'disrupted world'? Are strategic personnel responsible for specific social and environmental deliverables – and does their feedback work its way up to Board level?
✓ **'No' or 'low regrets' actions adaptable to multiple future scenarios, don't duck trade offs**
▪ Is your company actively working to identify business-as-usual 'low regrets' actions that will bolster legitimacy and licence to operate, helping to protect it in the event of further disruption? ▪ Does your company recognise where trade offs need to be made, and are these made consistently with your company's purpose?
✓ **Provide meaningful assurance and accountability to stakeholders**
▪ Does your company have sufficiently robust and independent assurance mechanisms in place to measure – and, if necessary, challenge – the success of your social and environmental initiatives? ▪ Has your company adopted appropriate external assurance – e.g. business accreditations? ▪ Are your company's messages communicated in clear ways to all stakeholders, and tailored to meet their different needs where and when required? ▪ Are there meaningful channels of accountability and challenge in place whereby customers and communities can make their voices heard and where you respond?
✓ **Demonstrate social and environmental *systems* value**
▪ Does your company have a compelling story to tell about its wider systems value? Can you address your place within the wider politics of fairness and the environment and your role in helping to achieve better outcomes not just for shareholders but for society and the environment?

Source: Sustainability First

Delivering and Embedding Positive Strategies and Narratives that 'Ring True' with Stakeholders

The fourth and final Pillar of our Sustainable Licence to Operate concerns the strategies and narratives by which public utility companies can illustrate the social and environmental systems value brought by their company and their sector in a way that is convincing to – or 'rings true' with – stakeholders. Strategies and narratives, of course, are different things – and the former must always precede the latter if companies are to bring about positive social and environmental outcomes which in turn can help them to achieve a Sustainable Licence to Operate.

A number of the actions frontier companies can take to embed this Pillar build upon themes already identified in this Guide. A strong emphasis on public purpose, for example, is vital to direct company efforts to deliver a positive, long-term strategy. Reporting, meanwhile, is clearly crucial to utility companies looking to deliver positive, long-term narratives.

Utility company reporting needs to change to take into account the need to deliver future social and environmental outcomes in step with changing public and policy expectations as part of a Sustainable Licence to Operate approach. In particular, it is crucial that company reporting gives meaningful assurance to stakeholders, not only in terms of a company's past year performance, but in terms of the business's systematic approach to social and environmental issues and its wider systems value. There is an important role here too for regulators, creating a climate in which openness is rewarded.

Best practice reporting and compelling company narratives can easily get lost, however, in the context of the 'disrupted world', where utility companies can understandably become drawn

Evolution in reporting needed for a Sustainable Licence to Operate

Traditional reporting arrangements	Current good practice reporting arrangements	Future Sustainable Licence to Operate reporting
Closed / blame reporting culture	Open / honest reporting culture	Collaborative and positive reporting culture
Short-term, internal, and piecemeal data	Integrated metrics developed following engagement	Metrics reflect long-term and systems value
Backward-looking	Forward-looking	Strategic
Measure 'things'	Measure culture and behaviour	Measure public interest outcomes – within and between generations
Static	Iterated	Evaluated
One-size-fits-all	Tailored to target audience, providing meaningful explanations	Help shape policy and regulation

Source: Sustainability First

into firefighting the latest crisis – Covid-19 being a case in point – or else feeling as if they constantly have to reformulate their strategies based on disruptive policy announcements (even if, as in the case of Net Zero, these announcements are to be welcomed). With such disruption not set to disappear any time soon, utility companies must face down the challenge of conveying honest and hopeful narratives for themselves and their sectors that 'bake in' radical risk and uncertainty around fairness and the environment.[46]

A Sustainable Licence to Operate can help to futureproof utility companies against a range of future scenarios. This is especially important in the current context and the uncertain outcomes of the pandemic on i) utility providers and ii) society more broadly; and radically changing public expectations around action on fairness and the environment. In addition to a relatively new government in post whose medium- to longer-term agenda – interventionist, laissez faire, decentralising, or a mixture of the three? – is not yet clear due to the necessary short-termism brought about by Covid-19.

Leadership and people will be integral regardless of future scenario. Companies driven by a deep and meaningful commitment to sustainability and the public good will be able to adapt more easily to changes in the external landscape and will be less likely to be 'wrong footed.'

Equally important, companies must be able to assure stakeholders as to the authenticity and efficacy of their strategy and narratives – again, turning 'talk' into 'action'. We do not prescribe any particular form of assurance in this regard; it depends on a range of factors as to which mechanisms suit a company best. However, this could take the form of external independent assurance via third parties, business accreditations, and/or customer challenge, whether through customer challenge/ engagement groups or other channels.

Leading utilities in this area will also have fine-tuned forward antennae for future social and environmental risks – and, crucially, treat these as truly material in their company reporting. Previous Sustainability First research on UK energy and water company annual reports and accounts has found that this is not always the case: while the vast majority of companies do include social and environmental risks in their principal risk and uncertainty statements, these are often bundled together, and the social risks covered tend to be those such as health and safety or customer satisfaction, not extending into wider fairness issues.[47]

Taking greater account of these areas in setting company strategy – including, importantly, the interdependencies between them – will in turn allow for the formulation of compelling, long-term company narratives that demonstrate not only the business's value to its shareholders and immediate customer base, but also its wider social and *systems value*.[48]

[46] Sustainability First's forthcoming 'Risk in the disrupted world' slide deck for boards and executive teams will cover this topic in greater depth. An adapted version of this work dealing with risk during the coronavirus pandemic – Sustainability First, 'Risk and uncertainty during the corona emergency: checklist for boards and executive teams to support strategic thinking' (April 2020) – is available on our website.

[47] See Sustainability First, 'Risky business? Life in the pressure cooker: How do UK energy and water companies and their investors currently view political uncertainty and regulatory risk around fairness and the environment?' (February 2020).

[48] Thereby building on work already underway in the energy and water sectors to establish common approaches for measuring Social Return on Investment / Social Value.

Pre-Covid-19

Post-Covid-19

Deep Dive: Engagement and Communication

Nest Corporation

Background: Nest Corporation is a Public Corporation of the Department for Work and Pensions (DWP) and the Trustee of the Nest pension scheme, a defined contribution pension scheme established by the government in 2010. Nest was established following the 2002-2006 Pensions Commission, which was set up to consider the consequences of the UK's ageing society and declining participation in occupational pensions for the sustainability of the pension system. Nest was set up as part of the automatic enrolment programme and has a legal obligation to accept any employer that wishes to use it to comply with its pension duties. Nest's primary legal duty is its fiduciary duty to its members, but as a Public Corporation it is also accountable to Parliament through DWP. Its Trustees are currently chosen by the Secretary of State for Work and Pensions. Nest also has a Members' Panel. The Panel allows Nest to take the views and considerations of members into account. It reviews the Nest Statement of Investment Principles and produces its own Annual Report. At some point Nest Trustees will be chosen through a process that includes the Members' Panel. Nest is regulated by The Pensions Regulator.

Since Nest was set up it has grown to become one of the largest pension schemes in the country, with 8.5 million members, 760,000 employers and £8.3 billion of assets under management (AUM). The 8.5 million members that Nest serves represent approximately a fifth of the working age population. It is thus one of the largest government behavioural interventions in any market, turning consumer inertia and defaults into a positive force to help people previously excluded from saving save for the future. Due to Nest's scale, it operates a digital first, self-service approach to administration and customer service. This has enabled Nest to deliver quality whilst keeping operational costs down. During the busiest periods of rollout, over 1,800 employers were signing up to Nest in a single day. However due to the self-service design of Nest's administrative systems, 85% did so without having to contact the Nest call centre for assistance.

Nest's members: Nest membership is predominantly made up of younger workers on low-to-moderate incomes across a variety of industries. Nearly half of all members are below the age of 35 and more than half have annual earnings of less than £20,000. The majority (92%) of members saving into Nest have been automatically enrolled rather than having made an active choice to save. Those that have made an active choice to save (over 250,000 people) tend to be disproportionately female, earning less than £10,000, and under the age of 25.

Nest's employers: The employers using Nest tend to be smaller companies, with 98% of employers having fewer than 50 employees. However, a large percentage of its membership works for mid-sized and large firms. Although only 0.6% of Nest employers employ 250 or more workers, these firms account for 36% of Nest members. Nest employers are located across the UK in major cities, suburban areas and rural communities.

Investment approach: Given the profile of Nest's membership, and the differences between their demographic and financial characteristics and those of traditional pension scheme members, a significant body of research has been conducted into their risk capacity, preferences, and investment choices, in order to inform the investment strategy. This showed that compared to members of traditional pensions schemes, Nest's members are likely to have a lower capacity to take risk due to significantly lower incomes (around £10,000 lower than members of traditional schemes) and lack of experience with financial products and concepts. They are also likely to have a lower risk preferences, with a significant percentage of those surveyed (37%) favouring taking no risk whatsoever with their retirement savings and displaying loss aversion when faced with investment losses. The research also suggested that Nest members are likely to have high levels of inertia once they have been automatically enrolled, with sizable majorities (between 7 in 10 and 9 in 10) of those auto enrolled in similar pension schemes in the US, Sweden and Chile remaining in the investment funds that they were defaulted in by their scheme. Surveys of Nest's members also show preferences for an option for an ethical fund, with an appropriate stance on child labour, exploitation and human rights violations, and that Muslim members would optout of the Nest scheme if they informed that the fund invested in non-Sharia compliant investments, or would feel they ought to opt for a Sharia compliant alternative if they knew it was available.

Nest Corporation

These insights have formed the basis for the investment strategy, which offers high quality default investment options, on the basis that the majority of Nest members will remain in the default fund, supplemented with a limited number of choices to meet the needs of those with strong ethical or Sharia investment preferences.

In 2014 the Government legislated to give pension savers more choice about how to access their retirement savings through the freedom and choice reforms, which removed the requirement to purchase an annuity. At the same time this created a disconnect between the behavioural forces at play during the saving and retirement phases of the pension system. Under automatic enrolment, members save predominantly through inertia, by being defaulted into a pension scheme by their employer. However, following the freedom and choice reforms at retirement members now have to make a set of very active and involved decisions about how to access their pension savings. Nest has conducted research into the attitudes and preferences of Nest members when it comes to this challenge. This shows that members (even those with small pension pots) want to use their savings to generate an income in retirement and want to be nudged into a product that would give them a sustainable income by their pension scheme. These ideas are being taken forward by the pensions industry, with a number of providers developing products that have similar features.

Engaging with members: Nest also carried out research to understand how members are likely to think and feel about pension saving. This was used to develop eight golden rules for communicating with members, which have been accepted by the industry and wider pensions sector as best practice for communicating with the new generation of savers brought into pensions by automatic enrolment, and are provided by The Pensions Regulator as an example of how schemes should communicate with members in clear, plain English:

1. 'I keep it real' – pension communications should be as practical as possible and use examples people can relate to. Theoretical concepts are harder to grasp and should be avoided.
2. 'Rights not responsibility' – People respond more positively to language that focuses on their entitlements rather than what they should be doing
3. 'Out with the old' – Communications about the advantages of being in a pension shouldn't focus on the details of retirement. It's not an idea people like to think about. Many feel it's too far away to be relevant to them. That means it's important to engage with people as they are now and bring messages about pensions into their current working lives.
4. 'One for all' – Those people who have been affected by pension reform and automatic enrolment take comfort in numbers. For communications that means reassuring people that they're part of a wider group.
5. 'Tell it like it is' – We should present the facts and let people reach their conclusions. People don't want pensions information to be dressed up. They want information expressed in plain language so they can form any value judgements themselves.
6. 'Give people control (even if they don't use it) – Nest members want to feel in control, even if they do not exercise it.
7. 'Take people as you find them' – Communications should be designed to fit with where people are in their understanding. New savers might have quite different levels of understanding from each other and from existing scheme members.
8. 'Be constructive' – People respond well to the idea of being able to make a difference to their future. Even when they have worries about how financially prepared, they are for retirement, they to focus on what can be done about it.

Conclusions: From a standing start Nest has grown to become one of the largest pension schemes in the UK, serving a significant proportion of the UK's working age population. Many of the people that Nest serves are low income, saving into a pension for the first time, and disengaged with the act of pension saving. To ensure that Nest serves these people effectively and fulfils its duty to act in their best interests, it has had to consider the design of a pension scheme from first principles, conducting a significant body of research into its membership to design an investment strategy, administration services and communications materials to meet the specific needs of its membership. In the process it has had a wider positive impact on the pensions industry, influencing other schemes to change their own approaches to member communications and investments.

Further Case Studies and Lessons Learned

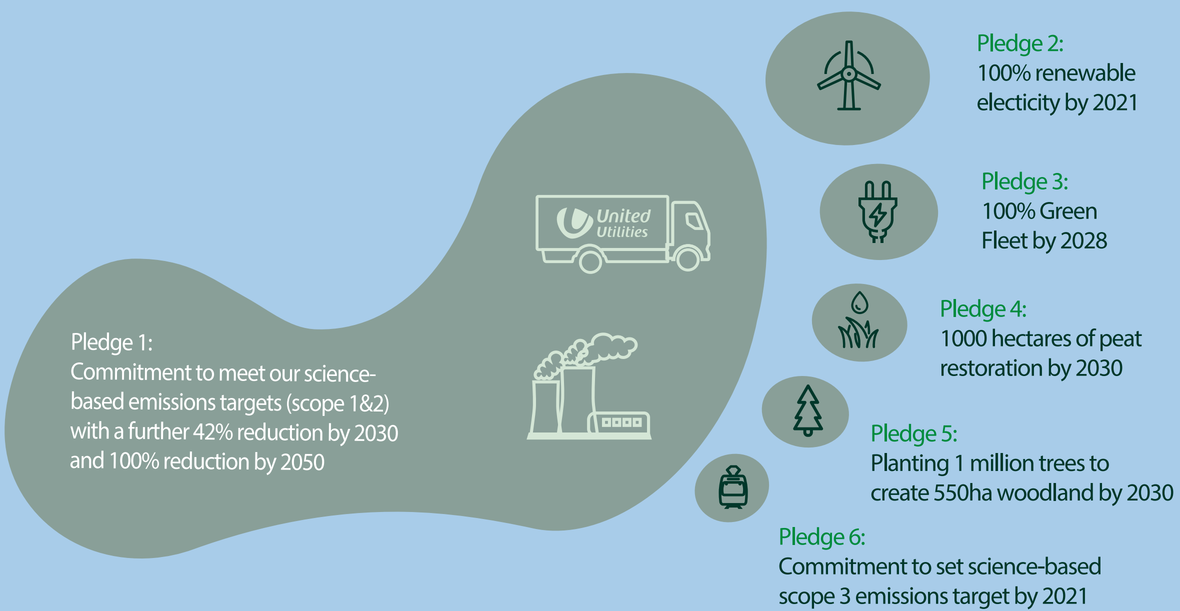
United Utilities: Integrating Sustainability into Reporting

Background: United Utilities (UU) delivers around 1,800 million litres of water every day to more than 3 million homes and businesses across North West England. It is an organisation driven by its purpose to provide great water and more for the North West, underpinned by a strategy to provide the best service for customers at the lowest sustainable cost in a responsible manner, and a set of values that are customer focused, trustworthy, and innovative.

Creating Value – Integrating Sustainability into Reporting: UU takes an integrated approach to its annual reporting, with a strong focus on creating **v**alue for customers and communities. Its latest annual report (2020) further integrates financial and non-financial data with, for the first time, a comprehensive climate change report that accords to the Task Force on Climate-related Financial Disclosure's (TCFD) best practice recommendations.

A 'Systems Thinking' Approach: UU has adopted what it terms a Systems Thinking approach which 'looks at how each individual element interacts with the other parts of the system in which it operates.' In the water context, this means that 'rather than operating each asset or treatment works in isolation, we use all the data from the telemetry we have installed across our network to analyse the entire system and all its linkages, enabling us to find the best all-round solutions.' In turn, this enhances the resilience of its services to, for example, severe weather events and climate threats, and creates greater value for customers.

TCFD Reporting: UU's strategy for climate change builds on this Systems Thinking approach. The company's TCFD report focuses on both adaptation and mitigation, each underpinned by clear environmental metrics and KPIs. In compliance with TCFD best practice, UU monitors its performance in terms of 1) governance, 2) risk management, 3) strategy, and 4) metrics/targets – and sets key pledges for progress moving forward. These are set out in detail in UU's full [2020 TCFD report](#).

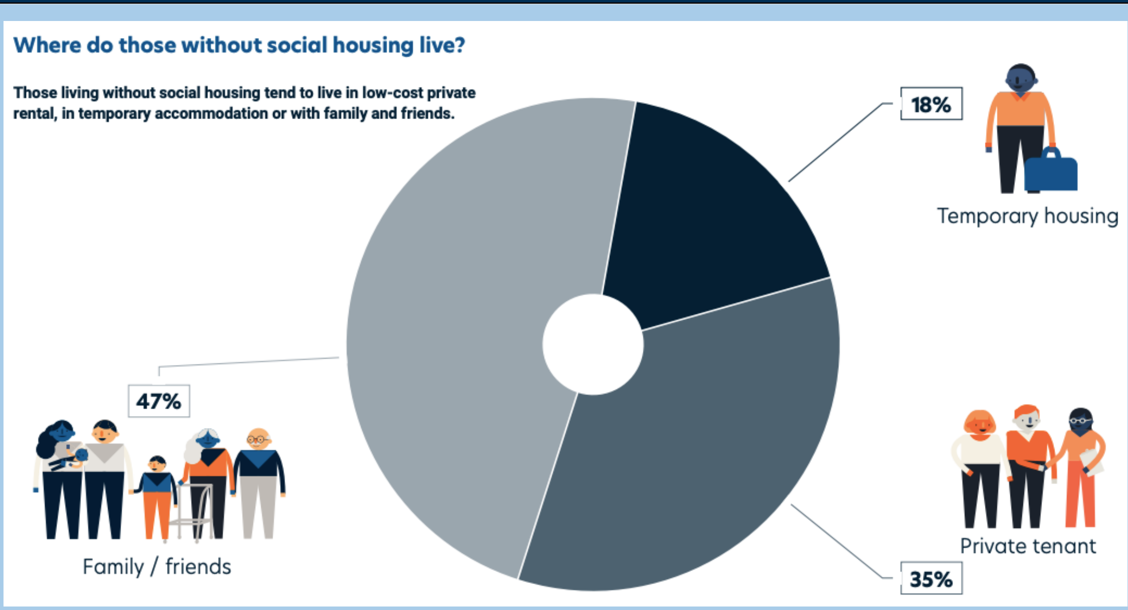


Source: United Utilities Group Plc Annual Report 2020

United Utilities

Hyde: Measuring Social Value

Background:
The Hyde Group is a provider of affordable housing in London, the South East of England, and neighbouring areas. It is a purposeful organisation with a stated social purpose of 'A great home for everyone'.



Source: Hyde, 'The value of a social tenancy' (July 2019)

The value of a social tenancy: As part of its efforts to demonstrate how the business lives up to this purpose, Hyde has since 2018 commissioned annual reports on 'The value of a social tenancy'. This is an independently produced document that assesses the value of the company's operations in the round – looking at how its social housing tenancies impact not only the company itself, but also its tenants, the communities it serves, and society as a whole. It does this through quantitatively analysing the result of improved outcomes for individuals, savings to public services, economic value created, and more efficient use of resources. Hyde's 2019 report found that the direct impact of a Hyde social tenancy was at least £11,731 per year. When construction and maintenance is factored in, this represents a total value of at least £553 million per year. The report goes on to break down this figure for a range of public services and goods; the social tenancy, for example, delivers £91 million worth of social value to the NHS through fewer falls for the elderly, reduced incidence of asthma in children, and other factors.

Five pillars of wellbeing: Feeding into the company's measurement of social value, Hyde analyses the situations of its tenants using what it calls the 'five pillars of wellbeing': financial wellbeing, mental wellbeing, physical wellbeing, relational wellbeing, and purpose. Underlying these pillars are a range of data, from household income and payment profile to measures around isolation and life/job/health satisfaction.

Sharing a social value approach: Upfront in its social value report, Hyde also offers the use of its model to other social housing providers and sector bodies, with a view to collaborating with others and seeking consistency in reporting across their sector.

Hyde

The Fair for the Future Project

Work to Date

The Fair for the Future Project has carried out significant primary and secondary research. All of our extensive final project materials can be found on our website here. These include:

- Desk research: 'Sustainable Licence to Operate Strawman Framework and Issues Report' (10/2018)
- Desk research: 'Conventional approaches to uncertainty and risk in terms of fairness and the environment' (10/2018)
- Four high level action research multi-stakeholder workshops to test the proposals in the strawman, ach with around ~40 attendees including: companies; economic and environmental regulators; government departments and agencies (including the NIC and CCC); consumer and environmental groups; trade unions; wider civil society groups; representatives of the supply chain; and academics (2018-2019).
- Primary research: ~30 'Talk into action' discussions with companies on how they embed purpose in their organisations (2019)
- Primary research: ~ 10 risk discussions with utility companies (2019).
- Four working notes on 'dynamic risk factors' in utilities (2019).
- Expert round table to test emerging conclusions with investors (10/2019).
- Primary research: Briefing Paper to guide strategic decision making in boards and Executive teams in the corona crisis (4/2020)
- Primary research with Company Secretaries: 'Sustainability, governance and public utilities – the role of the Company Secretary in putting the company's purpose into action: Expert Viewpoint Paper' (8/2020)

Next Steps

In addition to this Guide, Sustainability First will shortly publish:

- A paper on **Sustainability Metrics**, designed to help utility companies better demonstrate delivery of public interest outcomes – a foundation of our Sustainable Licence to Operate concept – through utilising a balanced scorecard approach; and
- A slide pack on **How regulated utility company boards and executive teams can develop better understanding of social and environmental risk and opportunities** in a 'disrupted world'.

In the winter 2020-2021, we will publish a report on **The implications of a Sustainable Licence to Operate approach for policy and regulation in the energy, water, and telecoms sectors.** This will explicitly cover the kinds of flexible and enabling policy and regulatory frameworks that are needed to encourage and deliver purposeful social and environment actions and outcomes.

This paper will be informed by invaluable pro bono assistance from Slaughter and May on the legal and regulatory structures in the water, energy and comms fields. Information papers from this work will be published separately.

This paper will be followed by a final Fair for the Future synthesis report outlining the project's overall findings derived from our extensive bank of primary and secondary research.

Thanks to sponsors

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Editorial responsibility for this report rests solely with Sustainability First.

About Sustainability First

Sustainability First is a think-tank that promotes practical, sustainable solutions to improve environmental, economic, and social wellbeing.

We are a registered charity that primarily works in the public utilities.

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