INFRASTRUCTURE PARTNERSHIPS AUSTRALIA

L.E.K.

BUILDING TRUST: SOCIAL LICENCE FOR INFRASTRUCTURE

Infrastructure Partnerships Australia

Infrastructure Partnerships Australia is an industry think tank and an executive member network, providing research focused on excellence in social and economic infrastructure. We exist to shape public debate and drive reform for the national interest.

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Methodology

This paper was developed using the experiences of Infrastructure Partnerships Australia members. The research methodology included:

- Review of literature on social licence and related concepts
- Review of case studies, and distillation of key lessons learned
- In-depth interviews with Infrastructure Partnerships Australia members to understand their perspectives, approaches and experiences in managing social licence
- Drafting and refinement of the discussion paper in consultation with industry

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EXECUTIVE SUMMARY

Change is hard. And delivering infrastructure requires substantial change. But this change becomes easier when the impacted communities understand the reasons for it, and the benefits it will bring.

Infrastructure, by its nature, often has heavily concentrated impacts but very diffuse benefits. These factors place the infrastructure sector at the frontier of debate about community support and the concept of ‘social licence’. Where the delivery of infrastructure imposes substantial change and disruption on communities, gaining and maintaining social licence is a critical success factor for a project or service. Indeed, social licence can have a very direct effect on electoral and commercial fortunes.

Social licence is a contract with the community

Social licence has historically been defined as the acceptance granted to an organisation by the community, closely linked to meeting community expectations and trust. Having a social licence means the community trusts that an organisation will act in line with their interests, beyond complying with legal, regulatory or contractual obligations.

While the concept of social licence is not new, events in Australia over recent years have generated greater scrutiny and a new tenor of public debate about the operations and behaviour of all types of institutions (including governments, corporations, investors and not-for-profits). This has in turn attracted greater focus on social licence in the public discourse, and within organisations and governments.

Social licence is increasingly relevant

High profile inquiries, most notably the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Banking Royal Commission), and a range of scandals including child sexual abuse in institutions and wage underpayment, have heightened the community’s sensitivity to unethical corporate conduct and eroded trust in institutions. The relationship between the community and institutions has faced further challenges with respect to:

- growing awareness of and advocacy around climate change and environmental challenges, which is driving stronger preferences for sustainability and carbon abatement
- cost of living pressures and wealth inequality,[1] increasing people’s sensitivity to increases in the price of infrastructure services
- challenges stemming from technological advancements, the emergence of 24/7 media and the ubiquity of social media, and
- the rise of the empowered consumer, with consumers playing a more active role in the products and services they use, expecting to provide and receive instant feedback, and taking their business elsewhere when unsatisfied.

Together these challenges have driven a shift in community attitudes towards institutions and regulators. Declining trust in institutions is a reflection that communities are no longer satisfied with the business-as-usual approach, demanding new levels of accountability and transparency. Some institutions have faced significant reputational damage and direct financial impacts from fines and penalties, as well as loss of revenue from consumers taking their business elsewhere. This has forced businesses and governments alike to critically assess their internal governance processes for developing and maintaining social licence, as well as more broadly managing the community’s changing attitudes and expectations.

Infrastructure has unique social licence challenges

The infrastructure sector is by no means immune to these growing challenges. While infrastructure provides essential services and is a vital component of any society, the assets are often large, noisy, and require large tracts of valuable land. This means infrastructure often causes disruption to local communities and their way of life. There is also increasing awareness and concern about the significant carbon footprint and environmental impact of the infrastructure sector.

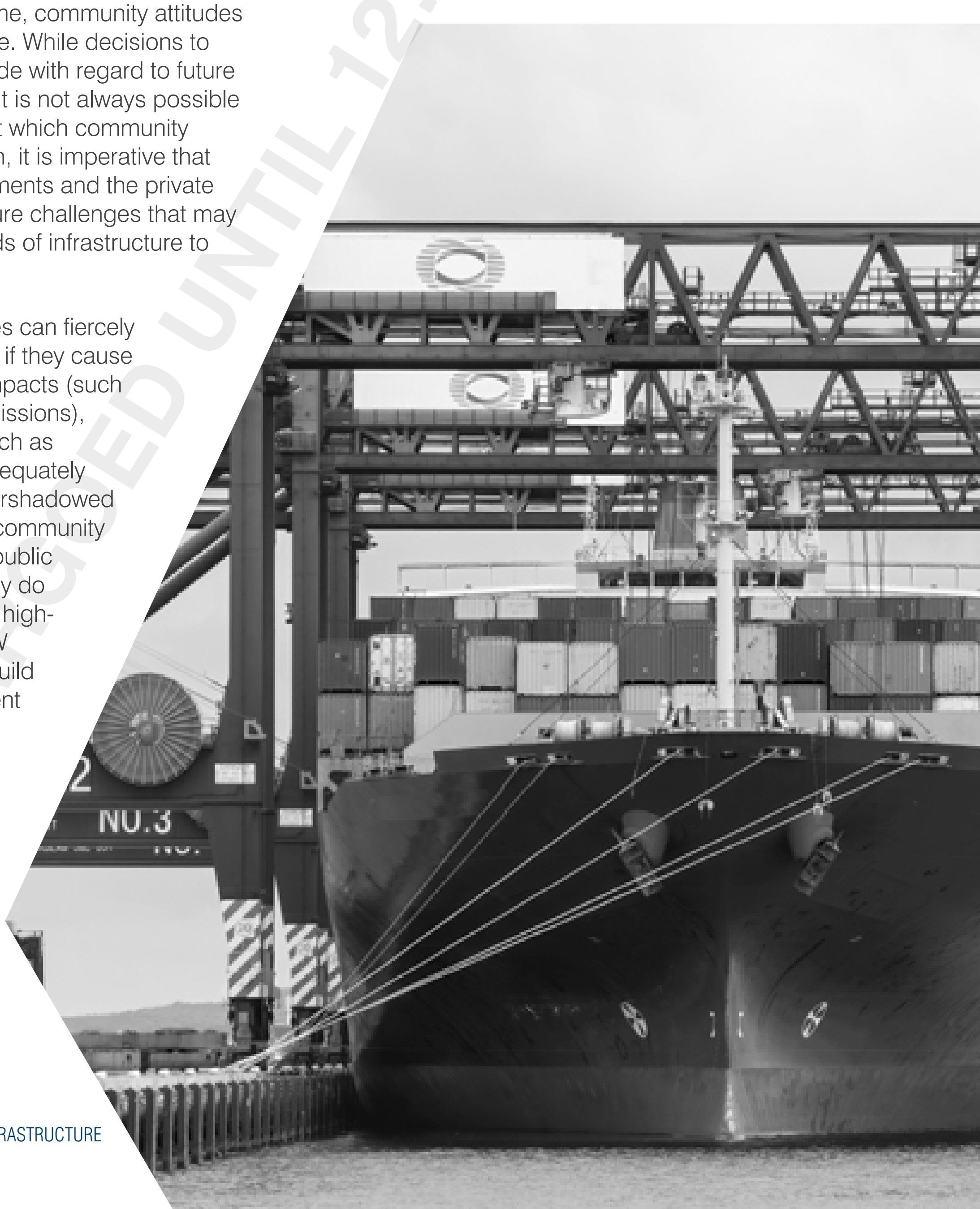
Further, many types of infrastructure operate as regulated monopolies as this is the most efficient means for delivery. However, businesses with monopoly characteristics can be particularly susceptible to attracting community distrust if they are perceived to be exploiting their market position. Infrastructure's role in the delivery of essential services can also come under fire when issues emerge.

In a changing environment, the long-term nature of infrastructure assets can also prove to be challenging, sometimes conflicting with short-term political and policy cycles and the pace at which community expectations can change. Decisions about infrastructure are made at a point in time and reflect the thinking and economic frameworks of that era.

However, the life of many infrastructure assets spans 50 years or more. Over this time, community attitudes shift, and new challenges arise. While decisions to invest in infrastructure are made with regard to future attitudes and circumstances, it is not always possible to predict these or the pace at which community expectations will shift. As such, it is imperative that decision-making – by governments and the private sector – take into account future challenges that may impact the economic dividends of infrastructure to the greatest extent possible.

Segments of local communities can fiercely oppose infrastructure projects if they cause disruption or other negative impacts (such as pollution, congestion or emissions), or if the long-term benefits (such as travel time savings) are not adequately communicated and/or are overshadowed by short-term disruption. The community will also challenge the use of public funding towards projects if they do not see it as appropriate – the high-profile debate around the NSW Government's proposal to rebuild Sydney stadiums being a recent example. Where the case is adequately built and the benefits clearly articulated, local communities will support a project.

Failure to uphold consumer protections and deliver basic service levels, as well as large increases in the price of essential services can lead to significant reputational issues for organisations or entire industry sectors (for example energy affordability). Cost of living pressures have also resulted in greater public scrutiny on how much people pay to use infrastructure. These issues are amplified in the face of the rise of the empowered consumer, whereby consumers are imposing greater demands regarding the accessibility and quality of services, particularly those that are essential.



Changing community expectations have contributed to the infrastructure sector facing significant public scrutiny over a range of projects across the infrastructure sector. This includes initial local community opposition to level crossing removal projects in Melbourne and ongoing frustration about poor National Broadband Network service levels. Justified or otherwise, these perceptions are nonetheless real. Similarly, environmental concerns permeate the infrastructure value chain, including the use of fossil fuels in electricity generation, construction, the impact of water and irrigation projects, and emissions – of greenhouse gases as well as noxious emissions – from the transport sector.

The social licence issues facing the infrastructure sector are also heightened by Australia's growing population and shifting demographics. These factors have placed increasing pressure on Australia's infrastructure assets, particularly in major cities. Governments in the fastest-growing jurisdictions have responded by adding new infrastructure capacity, resulting in an unprecedented level of funding in the infrastructure pipeline. The resulting construction activity means many communities are experiencing significant and sustained disruption.

The consequences of not gaining and maintaining a social licence in the infrastructure sector can be significant. Extreme community backlash can result in delays and cause changes in the project scope. Infrastructure Australia's 2019 Australian Infrastructure Audit highlighted that community opposition has resulted in the delay or cancellation of roughly $20 billion of infrastructure projects over the past decade.[2] The Audit called out changing community expectations and poor engagement as the most significant issues facing the sector.

"Historically we focused on pushing through projects; otherwise, things will never get built. However, the cost of not considering social licence is increasing, and there was a tipping point in the last few years, where you could not ignore it anymore."

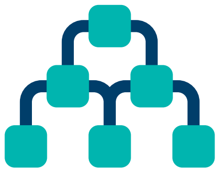
– Infrastructure agency

Social licence is not all downside risk. Where governments and businesses have earned the trust of the community, they are able to deliver assets and services in a streamlined manner. Good business practices allow infrastructure organisations to attract and retain customers and provide a robust foundation to garner support from communities for future projects. This also creates a greater likelihood of winning additional work. When infrastructure developers and operators have the support of the customers they serve, they have more flexibility to innovate and experiment, which creates benefits for government, business and the community.

1. KEY PRINCIPLES FOR DEVELOPING SOCIAL LICENCE IN THE INFRASTRUCTURE SECTOR

The unique characteristics of infrastructure, combined with the scale and pace at which infrastructure is being built in Australia, are posing various challenges for the social licence of the sector. The research undertaken for this paper has revealed a number of key principles that should underpin how infrastructure organisations develop and manage their social licence. These principles are further explained in section 5 of the paper.

Make social licence a key consideration for every infrastructure project at every stage



Implement an effective governance structure for managing social licence

Embed social licence considerations into all decision-making and processes

Deploy active and tailored engagement to gain the trust of communities

Ensure the benefits of a project are clearly and frequently communicated to the public

Improve the experience of infrastructure users

Establish methods for monitoring and evaluating social licence

Work directly with consumer advocates and community groups

Evolve the approach to keep up with shifting community expectations

2. THE CONCEPT OF SOCIAL LICENCE: A CONTRACT WITH THE COMMUNITY

DEFINITION

A social licence to operate is an informal social contract between an organisation and the community. It is defined by the community trusting that an organisation will act in line with the community's expectations, beyond what is required by legal or regulatory frameworks.

The term 'social licence to operate' is not new. Originating in the late 1990s in the mining industry it was used in the context of a community's ability to stop projects, similar to a government's ability to withhold permissions.[3] The subject was further explored in the following decade by consultants who observed the impact of their clients' loss of community standing.[4] Nonetheless, social licence has remained a fairly opaque concept in search of a clear definition and delineation from other concepts such as corporate social responsibility, reputation and trust. This paper seeks to provide greater clarity about social licence as a concept and to make a case for its growing relevance in the infrastructure sector.

Social licence is closely linked to community expectations and trust, but relates to an organisation's standing with its stakeholders, beyond just the idea of reputation. It has been defined as a measure of the 'acceptance granted to a company or organisation by the community', whether in the context of general business conduct or specific projects.[5] Social licence thus exists as the interplay between an organisation's positioning regarding various values and issues, its conduct, its relevant stakeholder groups, and the values of those stakeholders.

The evolving nature of social licence

Social licence is constantly evolving. Although it is built slowly over time based on a currency of trust or 'social capital', it can evaporate quickly if organisations are not on the front foot — or if they are caught up in a scandal or reputational crisis. Community expectations can change over time with the influence of external factors — what is accepted today may no longer be acceptable for stakeholders tomorrow. Organisations can build a more stable social licence by credibly engaging with their stakeholders, actively listening to their needs[6] and taking a co-design approach. Allowing communities to partake in the infrastructure design process supports the development of social licence as it encourages buy-in and can even improve social outcomes. For example, the rebuilding of a school in New Zealand that involved the local Maori community in its design resulted in improved attendance, no graffiti and parents being more comfortable in coming to the school.[7]

"The ebb and flow of community concern is a key challenge in managing social licence."

– Infrastructure investor

The importance of social licence in the infrastructure sector stems from its direct impacts on communities and end-users, particularly through its role in delivering essential services. Infrastructure faces both industry-specific challenges and broader challenges arising from shifting societal values and expectations. This, and the non-static nature of the community's acceptance of an organisation's conduct represent key challenges for the sector, making the ability of infrastructure stakeholders to develop and maintain social licence crucial.

"Social licence to operate is the single biggest issue on the agenda of infrastructure funds — by miles."

– Investment fund

"It has arrived in boardrooms. You can't go into a meeting without finding non-Executive-Directors talking about social licence."

– Infrastructure organisation

Social licence is linked to other established corporate frameworks

While social licence is gaining traction as an area requiring focus within organisations, there are several other well-established frameworks that organisations use to guide their relationships with key stakeholders. These frameworks often underpin or fit into the broader social licence activities undertaken by an organisation, and in some cases will be used to guide how social licence is managed. Often these frameworks do not holistically consider an organisation's reliance on community engagement within a social contract or the interlinked outcomes for the organisation.

Corporate Social Responsibility

Social licence can be viewed as similar to established marketing and public relations frameworks and initiatives such as Corporate Social Responsibility (CSR). While infrastructure organisations focus their CSR activities on protecting reputation in a certain area of public interest, social licence activities take a more holistic approach.

Generally, CSR policies encourage companies to engage in business activities that contribute positively to the broader aspects of society, including social and environmental goals. CSR programs are often specific initiatives that target environmental and social sustainability for the purposes of shifting reputation. In contrast, social licence holistically considers the overall standing of an organisation in the public domain. Social licence aims to drive comprehensive social contract outcomes across various dimensions affecting an organisation or a project. As such, CSR can be categorised as a tool used to manage certain aspects of an organisation's social licence.

> *"CSR, public relations, etc are business outputs and branding-related efforts."*
>
> – Infrastructure organisation

Environmental, Social and Governance frameworks

In contrast to CSR, environmental, social and governance (ESG) frameworks are investment principle frameworks. They are applied so that investors can understand the long-term sustainability of an investment by assessing its future financial performance.[8] Sustainability is considered at a holistic level to ensure the ESG factors are managed to protect and enhance value over the long term. ESG considerations are thus a key underpinning of a business' social licence.

ESG frameworks are often applied within reputational risk considerations but also within the context of internal and external reporting requirements. While these principles overlap with social licence elements, they do not holistically assess the link between an infrastructure asset or organisation and the affected stakeholders.

Additionally, responsible investment has gained momentum over the past decade, particularly in the financial services sector. The United Nations Principles for Responsible Investment,[9] established in 2007, is a framework that guides investment decisions and imposes accountability upon investors with respect to ESG issues over the long-term. Social licence is becoming an increasingly relevant driver of the long-term sustainability of investors, with calls to place greater focus on social issues when making investment decisions.[10]

3. THE INCREASING RELEVANCE OF SOCIAL LICENCE TODAY

While social licence to operate is not a new concept, its relevance today is increasing. This is a result of multiple high-profile investigations in recent years, such as the Banking Royal Commission, which have directed significant focus onto the way in which businesses and governments conduct themselves.

The Banking Royal Commission demonstrated the widespread consequences for failing to integrate community interests and expectations into business practices, and the need to hold a social licence. It has proven to be a turning point for how the business sector manages community expectations and social licence.

CASE STUDY 1

Banking Royal Commission: A catalyst for shifting community expectations

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was conducted throughout 2018 after years of mounting community and business pressure for the Federal Government to undertake an investigation.

The Royal Commission uncovered enough significant misconduct by Australia's financial institutions and intermediary entities to demonstrate a systemic deficiency — a failure to put consumer interests, particularly those of vulnerable and disadvantaged consumers,[11] before the profit-motivated interests of the sector.

The Commission proved to be pivotal for the banking and financial services sector, with flow-on effects across the broader business sector. It demonstrated that the industry had taken advantage of the community's trust and ignored the expectations and standards placed upon it — not just at the point of sale, but into the upper echelons of executive offices and boards. The sector ultimately experienced a loss of social licence, with a tangible ripple effect across the broader business community, the government and other core social institutions.

The Royal Commission received over 10,000 submissions.[12] In his final report Commissioner Kenneth Hayne outlined how poor behaviour has damaged the reputation of banking and financial services organisations:

> *"The very large reputational consequences that are now seen in the Australian financial services industry, especially in the banking industry, stand as the clearest demonstration of the pressing urgency for dealing with these issues."*[13]

It has become evident that the cost of ignoring community expectations can be disastrous. The Commonwealth Bank of Australia reported a $1.2 billion loss relating to costs stemming from the Royal Commission, such as costs associated to remediation and compliance programs.[14]

There also has been a perceptible shift in community expectations. People are no longer willing to be complacent with poor business practices. This has led to growing attention towards the management of social licence across the business sector as boards, executives and managers increasingly make it their mandate to increase their awareness and understanding of community expectations, and to ensure these standards are embedded within organisational culture.[15]

Growing challenges and opportunities in social licence

Organisations now face amplified public discourse with respect to their positioning, operations, and behaviours. Moreover, their specific successes and failures, as well as their general business conduct, are scrutinised to a much greater degree than previously. The impacts of the Banking Royal Commission demonstrate that social licence offers both challenges and opportunities. While some parts of the industry have experienced severe reputational damage and even financial penalties, other organisations, such as superannuation funds with mandates to invest ethically have seen rapid growth as a result of the increasing focus on social licence.

Winning a commercial contract and complying with legal and regulatory requirements is often no longer sufficient to put an organisation in good stead with the local community or society-at-large. As highlighted by Infrastructure Australia's 2019 Infrastructure Audit,[16] the expectations and demands people place on business and governments are both shifting and increasing. In particular, communities are placing increasing demands on businesses and governments to demonstrate their commitment to environmental sustainability, ethical production and consumption practices, and the health and wellbeing of employees and consumers.[17]

For the infrastructure sector, the heightened focus on how organisations conduct business has created new barriers for the delivery and operation of infrastructure. The below case study on toll roads illustrates how in addition to having a contract with the government, toll road operators now go beyond their legal requirements in order to build their social licence.

CASE STUDY 2

Tolling Inquiries: A commercial contract is no longer enough

Toll roads provide a useful example of how infrastructure organisations need to hold a social licence to operate in addition to the commercial contracts which allow them to operate. Toll roads are typically built, operated and financed by the private sector. Private investors recover the cost of building, maintaining and operating the road by charging fees for use of the road. This system is formalised through a contract between the government and the private company, known as a long-term concession deed.

By harnessing private capital through a concession arrangement, government can deliver road infrastructure projects earlier than would have been possible under a traditional government investment model, while beneficially transferring a suite of delivery and operational risks to private capital. This allows the transfer of appropriate risks and for investment incentives to be better aligned to customer needs. Multiple toll roads currently operate in NSW, Victoria and Queensland. In recent years, the operation of these roads has come under increased public scrutiny.

Several inquiries have been undertaken in Queensland,[18] NSW,[19] and at the Federal level.[20] These examined customer expectations and standards, transparency and accountability issues, and equity aspects of toll roads. These three inquiries demonstrate that infrastructure organisations cannot rely solely on holding a commercial contract but must also seek to develop and maintain a social licence to operate. They also show that governments are now conscious of community expectations in addition to the terms of the original commercial contracts they sign with infrastructure organisations.

Largely, the recommendations from the inquiries called for enhanced transparency and standards for customers regarding pricing and complaints avenues. This indicates that the issues sparking the inquiries were mostly a result of public misconceptions about toll roads. As such, the inquiries highlighted the importance of governments being clear with local communities and users about the construction of toll roads, their benefits, costs and potential changes over time. While some details of the contracts signed with private operators may need to remain confidential for commercial reasons, being as transparent as possible can help to build and maintain trust and support among stakeholders.

Beyond this example, the public is imposing greater scrutiny on infrastructure organisations across a range of issues that they care about. This can include topics as diverse as the following:

- **Fair treatment/welfare.** Businesses need to demonstrate that they treat their employees fairly. A perception of exploitation, lack of care or attention to a matter of importance to the community, or underperformance on a specific issue (such as offshoring) can have an impact on an organisation's social licence. Poor mental health and suicide rates in the infrastructure sector have also garnered attention recently. The sheer size and complexity of many infrastructure projects, alongside tight timeframes, can create stresses among employees that require monitoring and active management.

- **Diversity and inclusion.** The community now requires that workplaces embrace diversity and is placing greater scrutiny on organisations who are seen to not actively be doing this. Organisations need to demonstrate they take gender and other equality issues seriously at all levels, responding swiftly to concerns regarding discrimination and harassment. This is not just important from a social licence lens but also because it generates other benefits such as greater diversity of thinking amongst employees.

- **Health and safety.** Businesses that offer services or products with a proven negative health or safety impact are increasingly experiencing public criticism and, in some cases, severe business consequences. For example, the global Takata airbag recall attracted widespread media attention after multiple deaths and hundreds of injuries from faulty airbags. The company was eventually forced to file for bankruptcy.

- **Ethical business practices.** Businesses need to demonstrate that their practices and conduct not only are ethical in the strictest sense but also avoid abuse of market position. In a 2019 survey, over 60 per cent of respondents said consumers are now more likely to make purchasing decisions based on a company's ethical record than previously.[21]

- **Ethical supply chains.** Corporations are increasingly being scrutinised by a public looking to verify ethical supply chains, a trend that accelerated in 2018 with the introduction of the *Modern Slavery Act 2018 (Cth)*. This includes having a clear stance against child labour, production in sweat shops, modern slavery, and corruption. A recent survey demonstrated that the Australian general public considers ensuring ethical supply chains as one of the biggest priorities for businesses.[22]

- **Environmental stewardship.** Responsible, sustainable use of the natural environment is an increasing expectation of customers, local communities and the wider public alike. For example, the impact of greenhouse gases has created an expectation that organisations will use green energy, adhere to environmental laws and manufacture recyclable products. A recent survey showed that 47 per cent of the Australian general public think large companies should make a big effort to improving the country's environmental performance, as well as their own.[23]

Drivers of change

This trend towards greater public scrutiny of organisational behaviour is not temporary. These trend drivers include changes in society at large, fluctuating economic conditions, and considerable shifts in technology and the media.

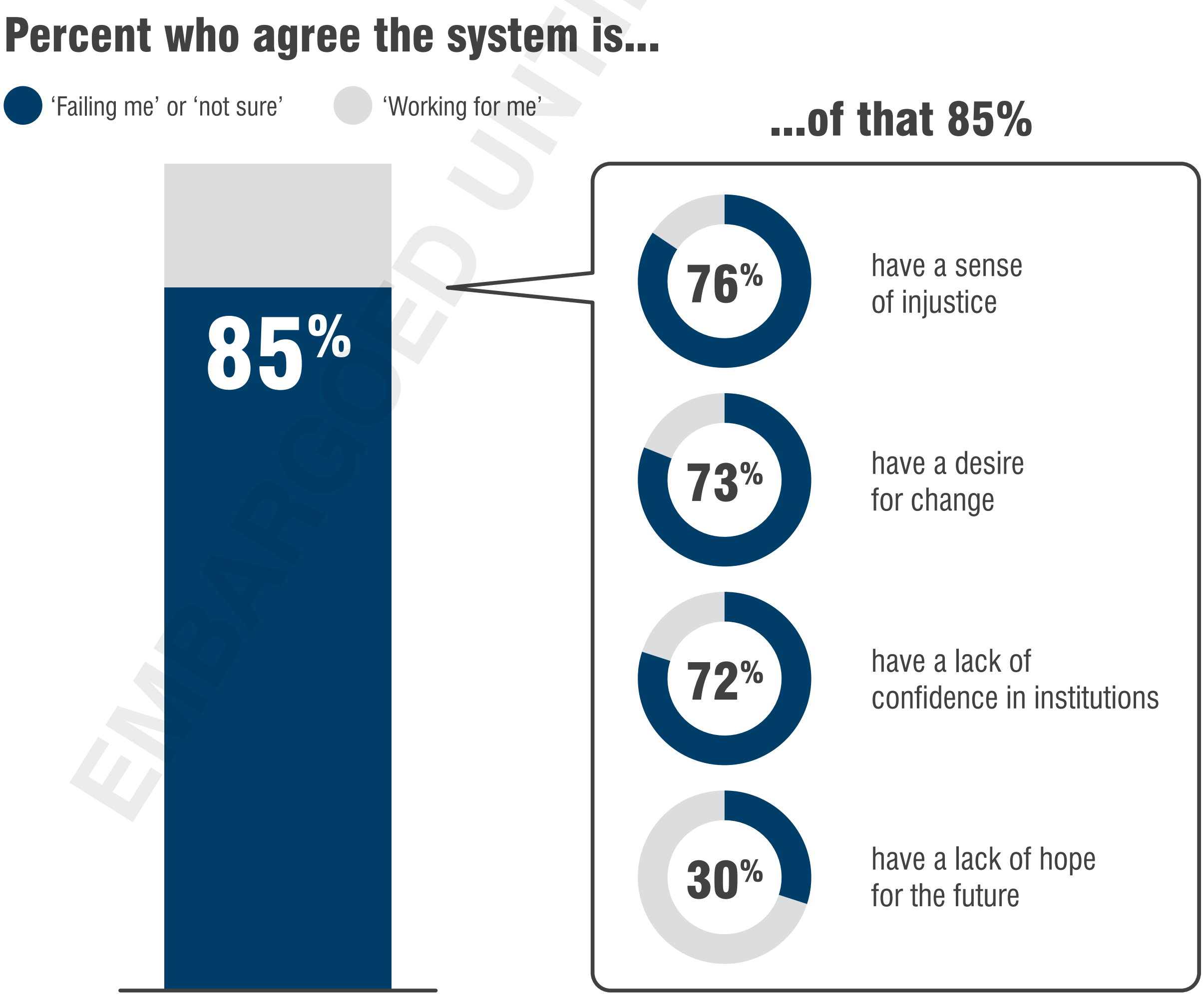
Driver 1: Broader societal and economic changes

Numerous broad societal and economic events and trends have had significant impacts on the relationship between the community and institutions. This includes: events that have undermined trust in institutions, population growth and shifting demographics, polarising politics, the rise of advocacy groups, shareholder activism and growing economic inequality and stresses.

- **Erosion of trust.** Challenges to organisations' social licence are underpinned by a range of trends — in particular, an erosion of trust or confidence in institutions.

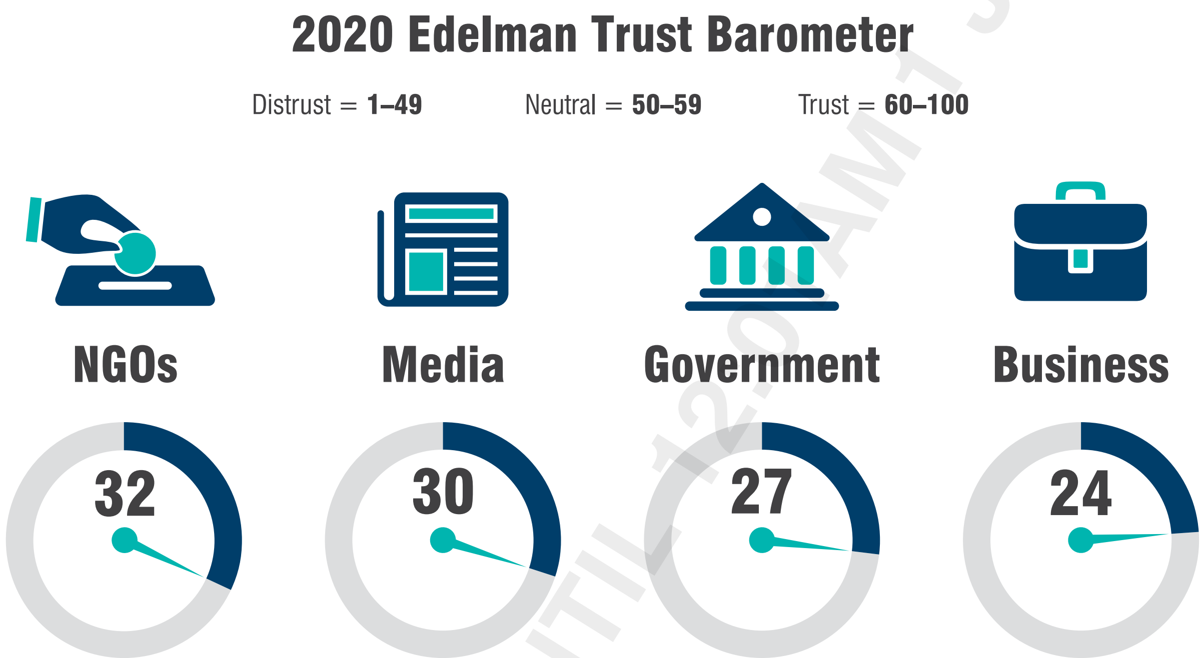
  As illustrated in Figure 1 below, Edelman's 2020 Trust Barometer found that around 63 per cent of the Australian population lack confidence in the system, express a desire for change and harbour some sense of injustice.[24] Among the informed public, Australia's Trust Index fell from an all-time high of 69 points to 59 points within the three months following the 2019/20 bushfires.

Figure 1: Australians' confidence in the system



Source: 2020 Edelman Trust Barometer

Figure 2: Trust in types of Australian institutions



Source: 2020 Edelman Trust Barometer

This erosion of trust has carried through to institutions, with a large share of the population now distrusting organisations, shown in Figure 2 above.

The consequences of this baseline mistrust among the population means that organisations face an uphill battle to maintain their reputation in the public domain even before any interaction or perceived wrongdoing may occur.

"The Royal Commission and CEO pay have had an impact — it was a lightning rod for society."

– Infrastructure operator

- **Population growth and shifting demographics.** Australia is undergoing strong population growth with projections of around 42.6 million by 2066.[25] These changes are already creating challenges for how organisations manage their social licence, including greater strains on Australia's cities, government budgets and infrastructure requirements.[26] Shifting demographics are adding nuances to how these challenges need to be approached. The population is ageing, with the percentage of working age people expected to decrease from 66 per cent in 2018 to 60 per cent in 2060.[27] An increasing dependency ratio—the proportion of non-working people relative to the working population—will place pressure on Australia's economy, and create increased strains on Australia's social services, and health and aged care systems.[28]

Concurrently, the percentage of millennials representing the Australian workforce is expected to increase to 75 per cent by 2025.[29] New generations often have new expectations to which organisations must adjust their practices. A recent survey demonstrated that in comparison to older generations, millennials place much more value on the way businesses approach social and environmental issues.[30] While pressures from younger generations is not a new phenomenon, social media is providing more platforms through which to disseminate scrutiny of institutions.

With infrastructure becoming increasingly topical across traditional and social media, amongst both younger and older generations, it will be crucial for infrastructure organisations to take a considered approach to meeting the demands of younger generations and managing the challenges arising from a growing and ageing population.

- **Adversarial politics and the polarisation of society.** Increasingly confrontational debate and greater scrutiny of organisations in the public domain are driven partly by today's more adversarial electoral landscape. The 2016 Australian Election Study illustrated the increasing polarisation of Australian politics over the last two decades. The percentage of politicians rating themselves as 'moderate' decreased from 37 per cent in 1996 to 10 per cent in 2016.[31] This political shift presents new challenges for building and maintaining support for projects across the political divide. Project proponents should actively monitor this increasingly volatile political landscape and ensure that project benefits are communicated in a way that a broad range of stakeholders will understand and appreciate.

- **The rise of advocacy groups.** Over the past decade, new local and global advocacy and activist groups (such as Get Up! and change.org) have emerged, covering a range of economic, social and environmental issues. These groups can mobilise support on topical issues and advocate for change using a range of tactics such as online petitions, campaigns and physical protests. Furthermore, their level of expertise, the proficiency of their tactics and the space they occupy in the public domain have increased significantly, which means they are no longer operating on the fringes.

- **Shareholder activism.** Ethical investment is now highly valued by the community, with nine in 10 Australians expecting their super and other investments to be invested ethically and responsibly.[32] In addition, with global shareholder activism at an all-time high, companies are engaging more substantially with activists. Ideological activists have ramped up the pressure on Australian boards in relation to environmental, social and governance issues. Seven of the ASX50 have put forward an ESG-related shareholder resolution at their annual general meeting.

- **Changing economic conditions.** The community's sensitivity to issues is also linked somewhat to prevailing economic conditions. The memory of the global financial crisis is still fresh for many. Over the past decade or so, growing income inequality and higher living costs have developed.[33] Media coverage of CEO salaries against a backdrop of weak wages growth has reinforced this issue for the public. In this context, infrastructure operators that directly charge consumers are potentially more exposed to negative attention.

> *"Cost-of-living pressures are causing people to look at power costs or toll charges."*
>
> – Investment fund

Driver 2: A shifting technology and media landscape

Changes in technology and media have resulted in the rise of 24/7 news in both traditional and digital channels. There are both positive and negative impacts arising from these changes. Alternative, digital-only news platforms and social media platforms — which offer a much lower cost to deliver, consume and disseminate content — have driven the following trends:

- **Proliferation and fragmentation of information.** Historically, only journalists created the news. Today, everybody can create content via social media channels, leading to a proliferation of information — and misinformation — available to the general public. This media often comes without a filter or any fact checking, allowing for the manipulation and exaggeration of information.

- **Information availability anywhere, at any time.** Information in today's world is available on a global scale, instantaneously and preserved forever, because 'the internet never forgets'. The proliferation of connected devices such as smartphones further enable the push-and-pull of anytime, anywhere content.

- **Amplifying opinions.** Social media platforms pose an opportunity to rapidly disseminate information beyond traditional channels, allowing content to be amplified or 'go viral'. Individuals can not only create and distribute new content, but also make their voices heard by annotating that content as they share, retweet or 'like' information. The resulting 'echo-chamber' of information means people are being exposed to a narrowing diversity of viewpoints. These platforms also allow individuals to amplify their previously disparate voices through aggregation. In contrast, social media also allows infrastructure organisations to identify supporters that can help in building social licence.

> *"Social media allows people who oppose developments to find each other, but it has also made it easier for organisations to find supportive voices."*
>
> – Infrastructure operator

Implications of the changing landscape

The examples and underlying trends described earlier demonstrate that the public stage for infrastructure organisations has dramatically changed, exposing organisations to greater public perception risks. Organisations today face greater transparency demands than ever, as well as the potential for wider, more rapid spread of information that catches the attention of media platforms. Organisations, therefore, must respond rapidly to issues, crises or criticism. Missteps have a higher chance of being noticed, and opposition can build more rapidly.

> *"We now face real-time exposure of bad customer experiences or other issues."*
>
> – Infrastructure operator

Failing to uphold ethical standards and/or community values, or deceiving customers and government regulators can have significant consequences for a company's reputation. Publicly scrutinised failures and the associated loss of social licence can lead to an immediate loss of trust and reputation, which may have taken years or decades to build.[34] In addition to reputational damage, failure to manage an organisation's social licence can bring direct financial impacts such as fines and penalties, top-line impact through boycotts by disenfranchised customers, or higher costs and lower margins (for example cost of delays in projects or of managing fallout). A poorly managed social licence can also have funding and share price impacts.

For example, the 2015 Volkswagen emissions scandal impacted the company's global reputation, with sales falling soon after it was uncovered that VW had been using software to allow them to deceptively pass emissions tests. In 2015 the company suffered a 20 per cent decline in sales in the UK[35] and a 25 per cent decline in the US[36] compared to the same month the previous year. The severity of the company's fraudulent and deceptive behaviour resulted in serious reputational damage for a company that had previously been held in high regard by consumers and governments alike. Beyond reputational consequences, the company has also been forced to pay over US$30 billion in fines, recall costs and settlements since the scandal broke.[37]

The consequences of not effectively addressing public challenge or corporate scandals can also have severe indirect impacts on organisations over time. Such missteps can lead to greater regulation, for example as a by-product of publicly or politically-led pressures to establish a royal commission or public inquiry.

These trends collectively demonstrate that the success of infrastructure organisations and projects increasingly rests on wider community acceptance and support.

4. SOCIAL LICENCE DYNAMICS IN THE INFRASTRUCTURE SECTOR

The underlying building blocks of what it takes to build a social licence are not new to the infrastructure sector. On the contrary, the need to engage with the community has always been a significant part of planning, constructing and operating infrastructure assets. However, the sector is now contending with a rapidly changing landscape for social licence where planning, constructing and operating infrastructure assets rely on community 'permission' and support more than ever before. This environment is magnified by the ongoing infrastructure boom in Australia and the robust forward infrastructure pipeline. As a result, social licence considerations and changes to community engagement activities are becoming top of mind for governments, infrastructure organisations and stakeholders.

Managing a diverse range of stakeholders

In their efforts to build and maintain social licence, infrastructure organisations must account for a complex set of stakeholders. Typically, infrastructure has very diffuse beneficiaries while the impacts are disproportionately local. This means that infrastructure organisations need to engage with stakeholders that are directly affected by their projects and wider operations, and also consider the complicated stakeholder network responsible for the delivery of projects.

For infrastructure organisations, stakeholders include not only their customers and employees but also the local community, as the construction and operation of infrastructure assets directly affect local environments. At times, the affected communities may not even be beneficiaries of the assets or potential customers, which creates a higher hurdle for gaining acceptance. In their efforts to build and maintain their social licence, organisations must consider the community at large, given the scale of infrastructure assets often generates broader attention and controversy.

> *"As part of our social licence project, we ran a stakeholder mapping exercise and identified five groups: community, government, customer, business partners and employees."*
>
> – Infrastructure developer

Ensuring the community and broader set of stakeholders are aware of the long-term benefits of infrastructure projects is crucial in developing social licence. A strong communication campaign highlighting the benefits to local communities, and more broadly for a city and the economy is required, particularly for major projects where short-term disruption is more significant. At the planning stage there is a strong need to think through the benefits of a project, both to the local community but also to the general population (such as economic stimulus, jobs creation, less congestion), and how these benefits will be realised and maximised. This will support engagement teams to communicate the benefits as the project progresses. Similarly, operators must work to maintain their social licence throughout the life of an asset, ensuring their activities evolve to accommodate shifting stakeholder expectations.

> *"We have to engage with our customers — there is a stewardship-type role when it comes to the things we build. We've also got to look after the local community, as construction can be a significant issue, and also our employees on issues like employment conditions."*
>
> – IPA member

Relevant stakeholder groups for social licence will differ depending on the type of organisation and the projects they are involved in. Developers and operators of assets should focus on local community engagement and the community at large during the entire life cycle, but may tend to do so in particular during planning and construction phases. Government agencies involved in planning and project decision making must set consistent public messaging that adequately conveys the benefits of a project and impacts of construction to the local community. For example, the Victorian Government has provided frequent updates about construction on its level crossing removal program and impacts to local residents. This has been coupled with messaging about the long-term benefits, such as how the project will 'ease the bottleneck… improve cycling and pedestrian connections, and create new open spaces….'[38]

Throughout the project development timeline, various stakeholders responsible for the delivery and ongoing operation of the project must ensure a coordinated approach to community engagement. Contractors must maintain a strong focus on the local community, as they represent the front-line during construction. They also need to engage with their customer base (for example government agencies and private developers), as contractors form an extension of those customers' respective social licence. Once a project has been delivered the asset operator is still required to manage social licence and consider impacts on end-users and other affected members of the community.

Social licence extends beyond those directly impacted

Besides these core stakeholder groups, infrastructure owners and operators also need to consider the other parties involved in planning, delivering, operating and regulating assets. For example, infrastructure projects often involve a complex mix of public and private partners. The Australian infrastructure sector has a long and successful history of using public private partnerships (PPPs) in the construction and operation of infrastructure assets. Within PPP arrangements, even if the building or operation of the asset is privately managed, public institutions still play a role in contracting, regulating and approving the private provision. Any organisation that is part of a large infrastructure project needs to be aware of the respective social licence requirements and sensitivities of the other parties.

> *"On large public projects, the Government may take the lead initially to make the case. Once delivery begins, they essentially delegate social licence building to the builder. They take over responsibility for shepherding the project through from an engagement perspective, as staff are at the front line."*
>
> – Infrastructure organisation

For investors, consideration of stakeholder expectations is equally as important. There is a growing expectation from the public that investments will be made ethically. The recent decision by Blackrock to withdraw investments in companies who generate more than 25 per cent of their revenues from thermal coal production demonstrates the sensitivity of investors to climate change, its impact on their social licence, and ultimately their long-term returns. Industry superannuation funds are similarly concerned about maintaining a strong social licence given it can impact long-term returns. The ease at which Australians can change super funds makes the need to carefully consider investment decisions even more paramount.

> *"Pension funds tend to be more exposed to social licence than regular funds, as they are connected to consumers via their members."*
>
> – Infrastructure investor

Infrastructure organisations also need to think bigger than the stakeholders directly affecting their social licence and must consider the roles of peripheral stakeholders such as the media, unions, advocacy groups and think tanks. These groups can add to the challenge of building a social licence, or they can influence perceptions among stakeholder groups.

Social licence themes in the infrastructure sector

Social licence is more challenging in the infrastructure sector than most other sectors. Infrastructure's additional social licence complexity stems from characteristics such as its physical nature, public funding sources and its role in delivering essential services.

The role of local interests

Local communities always feel the impact of the construction and operation of infrastructure assets. If assets do not deliver net benefits, or if the benefits are not effectively communicated, communities can withhold social licence and mount significant opposition. While this is not a new phenomenon for infrastructure organisations, the challenge is amplified in the face of shifting community expectations and Australia's growing infrastructure pipeline.

Infrastructure organisations must make significant efforts to build social licence through effective community engagement and strong messaging that enable the community to understand long-term benefits. Without these it is more likely that communities will use their power to disrupt a potential project, or undermine the operation of and/or process of regulatory reform for an existing asset. Managing stakeholder engagement from the time a project is in the early planning phase will mitigate the possibility of local interest groups banding together to create significant opposition. The proposal for the Eastern Creek Energy from Waste facility in Sydney provides an example of the disastrous consequences of failing to consider stakeholder expectations and impacts on the local community at the planning phase.

CASE STUDY 3

Eastern Creek Energy from Waste: Local opposition to project development

The experience with the Eastern Creek energy from waste facility in Sydney, proposed in 2017 by waste management firm Dial a Dump, is instructive when considering the importance of engagement with local communities. Although common overseas, large scale energy from waste facilities have not yet been built in Australia. As such, the community surrounding the site had very little information on the possible impacts of the facility's development.

The Eastern Creek facility was ultimately unsuccessful in gaining planning approval, and received severe community backlash during the planning phase. Planning approval for the facility was knocked back in July 2018 for several reasons, chief of which was the fact the project developer had failed to identify a reference facility, which could provide the New South Wales Independent Planning Commission (IPC) with certainty over air pollution and health risks.[39]

The community's concerns over the pollution and health risks were also not addressed. Community activism groups, such as the No Incinerator for Western Sydney group, launched vocal campaigns against the project.[40] This led to the establishment of a Parliamentary Inquiry into energy from waste technology in NSW. The Inquiry received 395 submissions, with many received from community groups or concerned individuals.[41]

As Australia deals with a growing waste management and resource recovery challenge, more energy from waste facilities are being proposed, with some already under development. Given the nature of the projects and the potential for not-in-my-backyard responses from local community groups, project proponents will need to be much more conscious of the need to engage with local interests.

A new proposal for an energy from waste facility in Eastern Creek has already been put forward, this time by a joint venture between Cleanaway and Macquarie Capital's Green Investment Group.[42] In October 2019 the joint venture proposed a $500 million facility, which the NSW Government will consider during 2020.

Challenges and responsibilities with the use of public funding

When making funding decisions about infrastructure, governments and their agencies must consider their social licence with the community at large and ensure ethical and responsible use of taxpayer money and publicly-funded assets. Communities often scrutinise the use of public funds for specific projects and can generate considerable local opposition. If the community perceives that the investment will provide a net deficit to society or that the funds would deliver more benefits elsewhere, it is less likely to grant a social licence to operate. The public will scrutinise the use of public assets both in relation to greenfield projects and redevelopments, and where privatisation of state assets occurs. Asset recycling can draw criticism depending on how the proceeds are used by government (for example for community benefit versus sale for debt reduction).

The contrast between the asset recycling campaigns run in NSW and Victoria, compared with the campaign run in Queensland, demonstrate how different uses of asset sale proceeds can either build or erode public support for a government. It also illustrates the need for a government to have a clear communication campaign when undergoing the process of asset recycling.

Similarly, the 2019 responses from the public and the media to the NSW Government's proposals to rebuild multiple stadiums exemplifies the challenges governments can face when allocating funds to infrastructure projects.

> *"Asset recycling consists of privatisation or long-term leasing of taxpayer-owned assets, with the proceeds used to fund new or upgraded infrastructure. Examples include the long-term leases of electricity networks in NSW and [in] the Port of Melbourne in Victoria."*
>
> – Infrastructure Partnerships Australia Submission to the 2019-20 Federal Budget

CASE STUDY 4

Asset Recycling: campaigning to get the public onside

Since the decline of the capital phase of the mining boom, public infrastructure funding has emerged as one of the key drivers of growth in the Australian economy. To accelerate investment into infrastructure multiple states and territories have undertaken asset recycling programs to provide additional funding for health, education and transport projects.[43]

The NSW, Victoria, and ACT governments embarked on programmes of asset recycling supported by the Federal Government's Asset Recycling Initiative (announced in the 2014-15 Budget). The Asset Recycling Initiative included a fund of $5 billion to incentivise states and territories to sell mature assets and reinvest the proceeds into infrastructure projects.

Differences in asset recycling across the nation's various states provide an interesting view into how the perception by and the posture of government can lead to vastly different outcomes for social licence in relation to the community at large.

In NSW, armed with a clear strategy for how to divest the assets as well as protect the proceeds, the Government established the NSW Infrastructure Fund (NIFF) in December 2016 as an investment vehicle for Restart NSW Proceeds. To date, the NSW Government has received $24 billion of net proceeds (in nominal prices, not including Federal Government payments) from asset recycling. This does not include the sale of 51 per cent of Sydney Motorway Corporation or NSW's share in Snowy Hydro. This arrangement has been positively received largely because NSW taxpayers have benefitted enormously from asset recycling, with the state's infrastructure funding increasing as a result and the benefits being clearly communicated by the Government.

Victoria has received approximately $14.6 billion (nominal prices, not including Federal Government payments) in proceeds from asset recycling, with the Port of Melbourne proceeds funding transport infrastructure across the state, including 10 per cent dedicated to regional infrastructure.

In contrast, the Queensland Government's stance against asset sales has materially contributed to declining fiscal capacity. This stance was a response to public views on the topic in Queensland, with Labor winning the 2017 election off the back of a 'no asset sales' campaign. Some critics pointed to Premier Campbell Newman's sales pitch regarding the asset sales as the problem, contrasting it with the success of Premier Mike Baird's pitch in NSW.[44]

The difference between the NSW/Victorian and Queensland experiences in part can be explained by the difference in how the benefits of privatisation were explained. In Queensland, Campbell Newman proposed a series of asset sales, the proceeds of which would be used to pay down state debt. The NSW and Victorian governments however made it clear that the proceeds of privatisation would be used to invest in new infrastructure which would improve access to health and education, as well as improving public transport.

In particular, this case study reveals that the NSW and Victorian governments were successfully able to communicate the long-term benefits of asset recycling and therefore earnt community approval for a complex policy proposal. Both the NSW and Victorian governments focused on projecting through broader public concerns about infrastructure policy proposals. Ultimately, jurisdictions which can demonstrate the benefits to the public are less likely to face an uphill challenge when pursuing asset recycling opportunities. The onus is on the government to improve how it engages with the public on the topic of asset recycling and to deliver well-designed and successful initiatives.

CASE STUDY 5

NSW Stadiums: Challenging the use of public funds

In early 2018, the NSW Government allocated $2.3 billion to rebuild two sports stadiums in Sydney.[45] These potential projects became the focus of extensive public scrutiny from certain interest groups and a discussion point in the lead-up to the 2019 NSW election. The NSW Stadiums redevelopment attracted considerable media attention and saw the creation of a major online petition which received over 200,000 signatures.[46] Through a variety of mediums local interest groups voiced concerns about and opposition towards the projects as they felt the funds would be better spent on infrastructure such as hospitals and schools.

The NSW stadiums example illustrates the intense focus and public analysis that the allocation of government funds towards infrastructure can attract.

Consideration of externalities

Infrastructure projects naturally need to consider externalities such as waste and climate impacts as part of their approval processes, during planning, construction, and operational phases. However, the changing social landscape is attracting greater scrutiny to organisations as communities voice their concerns, particularly regarding environmental impacts. The past decade has seen a significant shift in community expectations relating to how organisations manage their impact on the environment and mitigate climate change. This is most prominently illustrated in the increasing pressure to transition towards a low-carbon economy.

If a project is viewed as detrimental to the environment, it can garner opposition and affect the social licence and overall attractiveness of the project. Sensitivity to environmental impacts varies greatly by sector and an individual organisations' key stakeholders. Continuing to deploy effective stakeholder engagement is key to enabling organisations to be on the front-foot and position themselves to anticipate future changes in community expectations and plan for them accordingly.

The large-scale national campaign against the Adani coal mine exemplifies how public expectations around climate change are creating significant hurdles for some projects.

CASE STUDY 6

Adani: Climate change is a mounting risk to social licence

The Adani Carmichael project has shone a light on how loss of social licence can be near-fatal for infrastructure-related projects in a landscape increasingly concerned about the serious impact of climate change. Moreover, while the broader community is focused on the environmental concerns surrounding the Adani coal mine, the local community's focus on regional jobs has divided public opinion. Numerous financial institutions have responded by ruling out involvement in the project.

In June 2019, after eight years in the planning stages, the Adani mine in the Galilee Basin received its final environmental approval, effectively giving it the green light to proceed to development. However, the process has divided political parties and public opinion.

With Adani Group insisting its Carmichael mine is fully insured but declining to reveal who is underwriting the project, pressure is mounting on insurers to shun the controversial mine. Sixty-one global corporations — 16 of them insurers — have reportedly ruled out working with Adani on the Carmichael project.[47] These include Allianz, AXA, Swiss Re and Munich Re, as well as local insurers Suncorp and QBE. Major banks that have ruled out financing the project include BNP Paribas, Citibank, ING and JP Morgan Chase, as well as each of the big four Australian banks.[48] Infrastructure organisations have also ruled out providing services to the mine, such as GWA who ruled out providing haulage services. Aurizon has also faced consequences after refusing to rule out participation in the project with shareholders such as UniSuper significantly decreasing their number of shares in the company.[49]

The stringency of the approval process for the Adani project has been the subject of media and community critique and demonstrates how failure to build social licence from the early planning stages of a project can lead to significant delays in obtaining necessary planning approvals to proceed to the development phase.

> *"First and foremost, QBE supports the objectives of the Paris Agreement, and if we do that, we should be consistent with that. And that means we shouldn't invest in thermal coal and we should phase out the underwriting of thermal coal companies."*
>
> – QBE CEO Pat Regan

Social licence and competition

Natural monopolies occur in parts of the infrastructure sector where high fixed costs and significant barriers to entry mean that services are most efficiently provided by a single entity. Similarly, there are other parts of the infrastructure sector which may have natural monopoly like characteristics but operate with some degree of competition.

For asset types where natural monopolies exist, governments regulate infrastructure services in order to fairly balance the interests of consumers with those of providers. In those parts of the sector where there is limited competition, price and service quality monitoring is sometimes employed by governments to set clear guidance for organisations operating assets.

This dynamic between organisations operating with limited competition and regulators adds additional complexity to the pursuit of social licence in the infrastructure sector. The nature of the social licence challenge for infrastructure organisations can vary depending on the level of market concentration, whether regulation exists, and the organisation's proximity to the end-user. In parts of the infrastructure sector where competition is limited, consumers are more likely to have the perception of being forced into accepting a price or quality of service due to limited alternatives.

When consumers are unhappy in regulated markets, the community may lobby the government and regulators to act on the mere perception of unfair treatment. If the community thinks the response is insufficient or ineffective, both the organisations involved and government will see their social licence impaired. A good example of this is the recent criticism levelled at both the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) over their regulatory approach to Australia's banking sector.

Effective partnership with consumers can also help natural monopolies to create change within their regulatory frameworks. For example, Barwon Water's community engagement activities prior to handing in their price submission to the Essential Services Commission of Victoria demonstrate how monopolies can consult local communities and feed this into the regulatory process.

CASE STUDY 7

Barwon Water's 2018 Price Submission: Social licence in regulated monopolies

Barwon Water is Victoria's largest regional water corporation. As a natural monopoly and a provider of essential services, Barwon Water's prices are regulated by the Essential Services Commission (ESC) of Victoria. Under the regulatory framework, Barwon Water was required to make a price submission to the ESC detailing its proposed services and prices for the 2018-2023 regulatory period.

As part of the process to produce a price submission for the ESC, Barwon Water undertook an 18-month community engagement process. Input was sought from a range of community and indigenous groups, vulnerable customer advocacy groups, large business customers and an environmental consultative committee. Barwon Water also invited members of the Community Panel to present customer feedback on the pricing submission to the ESC.

Barwon Water's final price submission was thus refined to include feedback from the community. Barwon Water was able to demonstrate that it had proactively built a social licence by creating a plan for the future services it was to deliver and the prices it was to charge. The ESC approved Barwon Water's price submission, noting the inclusion of community input in the proposal.[50]

While community engagement in these processes is an important element of setting prices, it is also important to consider the scale and cost of consultation, considering this will inevitably be borne by users. Such engagement processes can be costly for utilities to undertake, and lengthy for regulators to review, so it will be important to review future engagement processes to ensure they represent value for money in their own right.

The Barwon Water price submission and engagement process also provides an example of how building and maintaining a social licence can be integrated into regulatory processes. Under the ESC's Performance, Risk, Engagement, Management and Outcomes (PREMO) regulatory framework, engagement forms one of the five pillars upon which pricing submissions are approved. This means the regulatory framework contains a mechanism rewarding utilities which build a social licence as part of their pricing proposals.

Consumer welfare and the role of regulation and standards

Beyond formal regulation and standards, there is an implicit expectation for businesses to treat customers fairly and keep them safe. Failure to do so can have a significant impact on an organisation's social licence and its ability to continue operating in the market.

Consumer protections are relevant in infrastructure as unsafe construction or operations can have acute and chronic consequences. While regulations, standards and protections are generally in place, it is not possible to foresee all circumstances where protections may need to be mandated. Consistent enforcement can be equally challenging.

The North Havelock contaminated drinking water incident demonstrates the disastrous consequences for infrastructure of failing to keep consumers safe.

CASE STUDY 8

Havelock North Contamination of Drinking Water: The consequences of poor consumer safeguards

In 2016 there was a widespread outbreak of gastroenteritis in Havelock North, New Zealand. This caused over 5,000 people to fall ill, 45 to be hospitalised and may have been a contributing factor in four deaths. After testing of the town's water supply, the presence of E. coli was detected.

An inquiry into the incident was undertaken by the New Zealand Government to understand how the outbreak occurred and how to prevent contamination in the future. The inquiry also investigated the regulatory framework underpinning the provision of drinking water and what changes were needed to better protect consumers from a subsequent incident.

The findings of the inquiry demonstrated systemic failure of regulators to hold water suppliers accountable to appropriate standards for safe drinking water, as well as failures with the enforcement of statutory obligations on suppliers.[51] While the inquiry made extensive recommendations to improve the regulatory framework to ensure a high standard of drinking water is delivered to consumers, public confidence in the essential supply of water was severely damaged[52] for some time thereafter. This had social licence implications for the local council and the New Zealand Government.

Sensitivity surrounding essential services

Communities are particularly sensitive to social licence surrounding infrastructure that delivers an essential service (that is, electricity, drinking water, health, education, justice and emergency services). Such services are non-discretionary and have largely inelastic demand profiles. Due to the importance of essential services, the social licence for an organisation, or even an entire sector, can be positively or negatively impacted depending on perceptions of whether services are accessible and affordable. Expensive or unreliable services risk disproportionately harming vulnerable communities (in rural areas particularly) and could lead to a perception that the organisation responsible is taking advantage of the public. Communities may be concerned about not only the level of services provided, but also the lack of investment in improvements. An ongoing neglect of these segments can also have considerable impact on the social licence of operators, governments and their agencies.

5. PRINCIPLES FOR BUILDING AND MAINTAINING A SOCIAL LICENCE

From the interviews conducted by Infrastructure Partnerships Australia and L.E.K., it is clear that organisations in the sector are not only exposed to new and heightened challenges but are also at different levels of maturity in embracing and evolving their practices to support their social licence. This has resulted in a range of different approaches from individual organisations and across the different infrastructure sectors.

An example of one approach is the sector-wide approach taken by the energy sector. The Energy Charter was developed by the sector to mitigate community concerns and expectations around the supply and affordability of energy. This approach was used to help the energy sector overcome previous poor management of social licence that resulted in sector-wide issues and mistrust from the public.

CASE STUDY 9

The Energy Charter: A sector-wide approach to social licence

Social licence for the energy sector has taken a hit over recent years, shifting from something consumers took for granted to front page political news. It is one of the more complex segments of the Australian infrastructure sector, and provides an essential service for households and industry. In Australia, energy networks are subject to economic regulation. The generation and retail sectors mostly operate as competitive markets however retail prices are regulated in some states. The generation of electricity can produce significant negative externalities, such as carbon emissions which contribute to global warming.

In recent years, pressure on energy market participants has led to challenges in balancing the need to provide reliable energy as an essential service with the management of price pressures and negative impacts on the environment. These challenges have surfaced in the form of price volatility, which have in turn led to a range of government actions and inquiries such as the Australian Competition and Consumer Commission's (ACCC) Retail Electricity Pricing Inquiry, with the final report released in July 2018. Following the release of the ACCC report, some federal politicians floated the idea of a royal commission to investigate the energy sector.

In response to widespread community concerns over affordability, reliability and sustainability in the energy sector, a range of businesses from across the energy supply chain developed and committed to the Energy Charter. Launched in January 2019, the Energy Charter aims to progress the 'culture and solutions to deliver energy in line with community expectations'[53] and reinforces the need for the supply chain to work together. The Charter seeks to improve transparency and accountability in the energy sector by creating a disclosure regime which will see energy businesses disclose and be independently evaluated on consumer outcomes.

At the time of writing, 24 companies — including AGL, Origin, EnergyAustralia, Powershop, Jemena, TransGrid and Endeavour Energy — are signatories to the Energy Charter, who together serve more than 10 million Australian energy customers.

With the first set of disclosures delivered on 30 September 2019, stakeholder consultation with the Independent Accountability Panel during October 2019 and the Better Together initiatives in their early stages, it is too early to assess the effectiveness of the Energy Charter in achieving its aims. Nor is it yet possible to draw conclusions on the Energy Charter's impact on maintaining social licence in the energy sector.

Interestingly, the Scottish Government has recently announced it will follow Australia's lead, and will become the world's second to implement an Energy Charter initiative.[54]

"It is something that is evolving – we are constantly trying to keep up with it. We are trying everything we can to manage it in a shifting environment."

– Infrastructure Operator

While the Energy Charter represents a coordinated effort by energy companies towards addressing community concerns, it was a reactive approach to re-establish the sector's social licence after it had already diminished. In the current changing environment, developing and effectively managing social licence requires infrastructure organisations to take a proactive, front-foot approach.

This research has revealed several key principles that infrastructure organisations should consider when developing and maintaining their social licence.

Maintaining a focus on social licence

Infrastructure organisations must institute a consistent focus on social licence when operating in the public domain and engaging with their stakeholders. This means involving stakeholders in decision making from the strategic planning phases, becoming better at predicting their needs, and foreseeing potential challenges to future projects or during the operation of assets. Maintaining a dialogue with the community throughout the project's lifespan is crucial in supporting an organisation's understanding of how community expectations are changing, configuring their activities accordingly and preparing solutions ahead of time.

Maintaining a social licence focus should also involve considering the whole-of-life impacts of a project and taking the time to understand how social forces, such as increasing preferences for sustainability, are likely to change over the lifespan of infrastructure assets. This will support infrastructure organisations in developing a holistic understanding of a project's benefits, and its risks, and communicating these to the public. On the investor side, assessing the long-term sustainability of an investment, from a social and environmental perspective, is vital. The onus of considering long-term sustainability outcomes at the outset of a project should be borne by both public and private stakeholders.

In some sectors, social licence considerations have become so material that organisations have become selective about which projects to bid for through the assessment of prospective projects against ESG criteria and consideration of reputation impacts.

Creating an effective governance structure

Maintaining social licence and staying abreast of likely challenges also requires the creation of effective governance structures that support key activities (such as consultation, co-design, monitoring, issues management). While boosting existing functions (such as ESG, risk management, community engagement) can provide an interim solution, organisations need to configure an operating model that creates an effective foundation to manage social licence for the organisation holistically and across projects and assets. This effort includes four key elements:

1. Social licence awareness and management need to be led from the top of the organisation. Creating the necessary urgency and attention requires accountability from the top of an organisation, whether that be the CEO or an accountable executive with direct access to the CEO.
2. Each project or business unit should have individual stakeholder managers who have a social licence mandate to lead engagement and monitor community expectations.
3. The management of social licence needs to permeate the organisation with accountability at every level, both to establish the mindset and to manage social licence effectively on a day-to-day basis.
4. Organisations should consider establishing a 'centre of excellence', or a specialised team dedicated to social licence than can support business units or projects with specific activities related to the establishment and maintenance of social licence.

"There is no better way to set yourself up to fail than just setting up a stakeholder engagement function and thinking that is it. It needs to permeate the organisation."

– Infrastructure agency

Embedding social licence from the beginning

At the individual project level, in order to develop a social licence, infrastructure organisations should make it a central consideration from the very beginning, from project conception and early-planning phases, throughout design, procurement, construction and even operation. In the early phases of project conception and planning, it is vital that project teams map out the process for building social licence for the specific project. This requires thinking about key objections and expectations that the local community, and broader society will have, and ultimately, the best way to gain the community's acceptance. Social licence is hard won and easily lost, so if a community has not been consulted during early phases of planning and design, it is less likely they will grant social licence to a project once construction commences. Community feedback thus needs to be reflected in key decisions to the maximum extent possible.

Social licence activities need to be integrated into decisions about planning, funding, timelines, procurement processes, mobilisation and operation. The infrastructure organisations involved in these decisions need to use strong public messaging from the start to set a positive tone for the project. When engaging contractors and other stakeholders in infrastructure projects, it is important to ensure they have a demonstrated capability to manage the social licence for the project during their involvement.

Deploying active and tailored engagement

An effective approach to establishing and maintaining social licence relies on an organisation's ability to set up effective stakeholder engagement. It is not just imperative in direct social licence management but is also an increasingly important formal requirement in project tenders. Organisations must now consider the following principles with the aim of building trust in the community and avoiding public backlash.

"The tender of one of our largest projects had the approach to community engagement as the second most important criteria."

– Infrastructure agency

Tailor the approach

Rather than adopting a one-size-fits-all perspective, the social licence approach needs to be tailored to the needs of different community groups. This entails a detailed stakeholder engagement strategy as well as ongoing perception and issues mapping in order to cater to the needs of specific segments. Organisations should consider leveraging novel programs that are designed to achieve greater buy-in, both early in the planning phase and throughout the delivery cycle. Examples includes:

- **Co-design.** Some projects have scope to allow local communities to take part in the design of certain elements, with some organisations using concepts like 'community juries'.
- **'Community champions'.** Organisations have learned that building up proponents from the local community and leveraging them as 'champions' in engagement can achieve greater buy-in among the public, as community engagement is no longer coming across from an external voice only.
- **Hiring local staff.** Organisations should make local community engagement as local as possible. This includes leveraging local connections and employing on-the-ground staff instead of fly-ins for community engagement sessions.

Build a multi-disciplinary team

Stakeholder engagement teams need to work closely with technical and engineering teams. Bringing in technical experts can help the team explain key project decisions and explore alternatives.

Engage early, authentically and often

Organisations risk resistance and delay if they don't engage the public against the following principles:

- **Early.** Organisations should consider getting the community involved before all internal business plans and processes are settled. However, doing so must involve careful management of expectations to ensure the community are not promised outcomes that may be impossible. Choosing the moment at which a community is first engaged must carefully balance what the government is able to promise and deliver with community expectations.
- **Authentically.** Effective engagement requires that team members put themselves in the shoes of community members. This includes being willing to listen to community concerns and adequately address or explain trade-offs. Authentic engagement also means that organisations must go beyond relying on tried-and-tested methods of the past (such as letterbox pamphlets), to include interactive approaches such as site tours, community meetings and other innovations.
- **Often.** Organisations must engage frequently and employ a consistent message to ensure that benefits and intentions are clearly understood and to avoid misperceptions.

Nonetheless, organisations need to find the right balance in timing and frequency, as engagement that is too early or too frequent can create challenges with expectations and overall project timelines.

Use appropriate messaging

Project and stakeholder materials should focus first on the long-term benefits to the community, with a lesser focus on explaining technical aspects. These materials should begin with the community story and emphasize the benefits for the community —and the community's readiness — before introducing the specifics of the asset. This helps to establish relatability and goodwill and ensure communities can see past short-term disruptions.

Manage social media

Organisations cannot allow a vacuum to form or let discontent spread, but rather should use social media to proactively engage. Stakeholder analysis must include mapping and monitoring community sentiment. Furthermore, organisations must respond promptly and effectively to any mentions on social media. They should also have a clear, proactive social media strategy that links into the overall stakeholder engagement approach.

Maintain a presence in the community

Community opposition can build to a point where it disrupts an organisation's social licence even after the asset has transitioned into operation. Organisations must build a community presence that extends beyond the project to ensure lasting trust and ongoing management of the asset's impact. Some organisations have created 'community advocate' positions and other dedicated teams for this purpose.

Evolve the approach

Recognise that stakeholder groups will vary greatly in their expectations and the approaches they respond positively to. This means 'learning by doing' is sometimes necessary, but by evolving their approach organisations can better understand what works and what does not.

The engagement strategies deployed by Sydney Metro and Level Crossing Removal Project (LXRP) provide examples for how infrastructure organisations can successfully undertake authentic, tailored and meaningful engagement to obtain the community's trust and ultimately build a social licence.

CASE STUDY 10

Sydney Metro: Effective community engagement

The community engagement approach used by Sydney Metro provides a best practice example of how to manage community expectations, engage with stakeholders, and develop and retain a social licence to operate.

Sydney Metro has engaged with the community since 2011, refining the program of works for better stakeholder and customer outcomes. They have engaged with more than 500,000 people at community events such as station openings, site visits and the Sydney Royal Easter Show. Engagement activities have aimed to build awareness and understanding amongst stakeholders and the community about the project and works being undertaken.

This has been achieved through a range of channels and tools, including new and innovative ways to capture a wide demographic of stakeholders. These methods and tools included:

Real-time tunnel viewer – Interactive program allowing residents to view a diagram of where the Sydney Metro tunnels are in proximity to their home.

Tunnel boring machine tracker on website – Tracking tool to check the progress of Sydney Metro tunnelling and proximity to a resident's home.

Life-sized model train – A 13-tonne life-sized model of part of the front carriage to allow the community to experience Sydney's new transport mode.

Station prototype – A life-sized model of one of Sydney's new metro stations to help the community become familiar with Sydney's new stations.

Visits to construction sites and almost completed new metro stations – Construction site visits were coordinated with Sydney Metro's delivery partners so the community and stakeholders could see first-hand the scale of the project, site progress and key milestones or activities taking place.

Community information centre (CIC) – Opened in 2011, this was the first project information centre where community members could speak directly with Sydney Metro and its delivery contractor(s). The CIC was permanently located in a shopping centre, while mobile CICs moved around Sydney's North West.

CASE STUDY 11

Level Crossing Removal Project: deploying extensive and innovative engagement

The $1.6 billion Caulfield to Dandenong level crossing removal project entailed removing nine level crossings along the Cranbourne/Pakenham rail line in Victoria. The project initially encountered fierce community backlash towards the decision to take the rail over the road rather than under. One local interest group even took a case to the Supreme Court (who dismissed it) in 2016 on the basis of inadequate community consultation.[55]

In response to this opposition, LXRP deployed an extensive engagement strategy, underpinned by the central message 'short term pain, long term gain'. LXRP set up stakeholder liaison and community reference groups to provide formal feedback mechanisms. They used a tailored online hub providing information for each of the level crossing projects along the line. This enabled LXRP to engage with people through online surveys and a moderated feedback hub.

Revitalisation projects were undertaken in each of the suburbs along the line. The community was invited to provide feedback during design phases, engaging with design elements such as landscaping, stations, and recreation facilities. 3D modelling was also used to demonstrate the finished product.

To manage local businesses affected by the projects, LXRP developed a 'Trader Engagement Strategy'. Tailored communications sought to build relationships with the business community, either individually or through a trader association, and provided access to the government's small business mentoring program. They also ran an 'open for business' campaign, to let the community know that local businesses were still trading.

Communicating the benefits

Infrastructure projects often involve a degree of necessary disruption to local communities during construction phases. This can result in noise pollution, restricted access to roads and public spaces, and negative impacts on local businesses. Often it is difficult for a community to see past this disruption to the long-term benefits. This can spur resistance against a project. To mitigate this, governments, along with other infrastructure organisations involved in a project, must support communities to see through the short-term pain by providing clear, consistent communication about the long-term benefits and impacts on individual lives (such as travel time savings, more green space, improved amenity in public spaces).

This is particularly important in the context of today's infrastructure boom in which communities are more likely to be sensitive to the extensive construction taking place. Governments need to run strong campaigns to get communities onside and ensure the long-term benefits are clearly understood.

Similarly, during the operation of infrastructure assets it remains vital to continue engagement and other relevant social licence activities with the local and broader community to ensure the public continues to understand the benefits of an asset.

Reducing friction

Once a project is operational, it is crucial that the interactions users have with infrastructure are as simple and pain-free as possible. This means providing easy access, ensuring prices reflect costs and are stable where possible, providing understandable information up front and throughout the user experience, and being on the front-foot when challenges arise. There are multiple elements that can help reduce friction for infrastructure end-users, including:

- **Accessibility.** Infrastructure services should be easy to access and use.
- **Transparency.** Providing easy to understand, up to date information about infrastructure services and how to use them can greatly enhance the user experience. When things go wrong operators should communicate the problem to users, explain what is being done, and offer an interim solution. Infrastructure organisations should also offer feedback mechanisms and demonstrate they are continually working to improve the user experience.
- **Optionality.** Providing a range of options for how an end user can access an infrastructure service, or get to where they need to go, can also demonstrate to users that infrastructure operators value user interests. In practice, this might mean an infrastructure operator providing options that don't rely on their service or providing a range of service offerings at different price points.

CASE STUDY 12

Reducing friction for infrastructure end-users

Many infrastructure organisations are already implementing various solutions to make the end-user experience of infrastructure as straight forward as possible. Some examples include:

Transport for NSW contactless payments – TfNSW and Cubic introduced contactless payments across the Opal network in Sydney. This allows customers to pay for transport journeys with an eligible bank card or linked device.

Transurban Linkt – Transurban provides an online Trip Compare resource that allows end-users to compare travel times on tolled versus non-tolled roads, alongside time savings, fuel use and costs (for trips in Melbourne and Sydney). Customers can also pay for trips, see real-time traffic information and reach out for assistance if needed.

Energy compare website – The Federal Government's 'Energy made easy' website allows consumers to compare energy offers. It also provides simple information about how to lower energy bills and switch providers.

Uber app – Uber introduced a function to its ridesharing app allowing users to compare an Uber trip with public transport.

Setting up effective monitoring and measurement

Effective management of social licence requires appropriate measurement and accountability mechanisms within organisations. This can require a quite different set of metrics and new methods of data collection. By monitoring social licence themes and stakeholder pain points as they develop, organisations can continuously evolve alongside community expectations allowing them to effectively respond. Organisations should develop metrics to analyse the state of their social licence effectively and configure engagement activities accordingly. This could derive from an in-house approach or through leveraging existing frameworks.

Some examples include the CSIRO's science-drive model[56] measuring stakeholder trust, or the United Nation's Principles for Responsible Investment, a framework which measures the ethical value in an investment portfolio as a proxy for social licence. These frameworks should form the basis for establishing accountability within the organisation for behaviour and decisions that impact social licence. Some organisations have leveraged these frameworks and linked them with annual KPIs for the responsible executive or CEO.

Working directly with consumer advocates

Building social licence often necessitates working directly with consumer advocates and integrating their views as part of project governance or at least regular engagement. For example, Energy Consumers Australia, the national voice for residential and small business energy consumers, participated in the development of the Energy Charter.[57]

> *"We are pleased to have played a role in the development of The Energy Charter. It is a voluntary regime, built on an ambitious set of principles – cast in terms of core consumer outcomes."*
>
> – Energy Consumers Australia press release

Monitoring and adjusting to the changing landscape

Organisations must learn how to operate in today's dynamic landscape, where new trends can develop quickly, and stakeholder expectations change much faster. In order to effectively maintain social licence with their stakeholder groups, organisations in the infrastructure space need to set up effective monitoring processes so they are not caught out as circumstances change.

6. NEXT STEPS IN BUILDING SOCIAL LICENCE FOR INFRASTRUCTURE

As this paper has demonstrated, infrastructure organisations are still grappling with how best to approach, develop and maintain their social licence, both at the organisational level and individual project level. This final section outlines possible avenues for improving the sector's ability to build its social licence. This includes improving methods for measuring the impact of infrastructure projects on communities, knowledge-sharing amongst infrastructure organisations, and incorporating social licence activities into competitive procurement processes and regulatory frameworks.

How organisations gain and maintain social licence must constantly evolve as community values shift and expectations rise. More work is needed to make the concept of social licence more tangible to infrastructure organisations and stakeholders. This should involve organisations investing in measuring the impact of infrastructure projects and their broader conduct on their social licence to effectively guide future decision making and action. This will support their ability to be agile and adapt in a changing environment, and will be crucial to their long-term sustainability.

Supporting the sector to implement best practice is also key. Governments have a role to play in this and should promote and reward organisations who are seen to be taking their social licence activities seriously. Governments could incentivise social licence management by making it a competitive differentiator in procurement processes. Integrating social licence into tender processes will cement its importance in the sector and could drive innovation among infrastructure constructors and operators bidding for projects.

Regulation also plays a key role in supporting the ability of infrastructure organisations to develop and maintain a social licence. Regulation is vital in many areas of infrastructure to ensure consumer protection and safety standards are upheld. Regulation also plays a role in guiding organisations to make decisions that align with community expectations and support the development of social licence. Integrating community engagement into regulatory processes could also ensure the sector adequately and appropriately communicates with the public and is able to evolve alongside shifting community expectations.

Implementing activities, regulations and new aspects of procurement that support the development of social licence will need to be carefully balanced with ensuring the sector continues to operate efficiently. Unduly applying cost burdens on infrastructure organisations will inevitably flow to either users or taxpayers, and so could be counter-productive to social licence activities and undermine efficiency. Achieving the delicate balance between implementing adequate social licence activities and continued efficiency will be vital for the sector.

This discussion paper and the concepts it explores should act as a foundation for broader discussion of social licence in the infrastructure sector. While emerging best practice strategies to build and maintain a social licence are highlighted in this paper, further discussion between communities, businesses and governments involved in infrastructure development will be required to ensure that Australia's record pipeline of infrastructure investment is delivered successfully.

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