



South East Water's unpaid accounts dilemma (B)

In 2002 South East Water, a Victorian state-owned company which operated the water supply and sewerage system servicing one-third of the city of Melbourne, faced a dilemma. A small proportion of the company's 537,000 residential customers were consistently not paying their water bills due to financial hardship. The credit department's traditional approach to pursuing these debtors was not proving entirely effective in the longer-term. It was costly in terms of fees to collection agencies and staff time, and was stressful for both staff and clients in financial hardship who were pursued by the company. Debtors would often agree to repayment plans to get the company "off their back", but would be unable to keep up these payments longer than a few months, leaving the credit department no choice but to begin its collection cycle again.

In mid-2002, after consultations with a range of financial counselling agencies working with low-income and disadvantaged people in their catchment area, South East Water negotiated a partnership with a small not-for-profit community agency called Good Shepherd Youth and Family Service, to provide its customers with a no cost and confidential financial counselling program. The service would be funded by South East Water and provided by Good Shepherd.

However there were considerable cultural differences between the two partners. One was a large corporation with a multi-million dollar budget to supply an essential service to the community and manage many hundreds of employees. The other was a small charitable organisation whose financial counsellors had in the past been in adversarial situations with the South East Water's credit department as they advocated on behalf of customers with unpaid water bills. These cultural differences meant that there were some challenges to be overcome at the partnership's beginning.

This case was written by Tim Watts, for Professor John Alford, Australia and New Zealand School of Government as a basis for class discussion rather than to illustrate either effective or ineffective handling of a managerial situation. The assistance of South East Water and Good Shepherd in preparing this case is gratefully acknowledged, but responsibility for the accuracy of the version of events presented here lies with the author.

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Advice about financial hardship

In early 2002 the South East Water credit department began to arrange meetings with staff from charitable organisations involved in providing financial counselling support services to people experiencing financial hardship to learn more about issues underlying their unpaid accounts problem. One of the first organisations they met with was Good Shepherd Youth and Family Service, a not-for-profit organisation founded by an order of nuns, the Sisters of the Good Shepherd. It provided a range of community services to disadvantaged people including foster care, family violence support, financial counselling, community building programs, micro-credit initiatives and youth programs. Good Shepherd employed around 70 staff at four locations including Hastings, which was in South East Water's operational zone. Its operating budget came from a range of government programs and through donations from the public.

South East Water's credit manager at the time, Terry Dalglish, was familiar with the organisation, as a working relationship had been established with Good Shepherd financial counsellors when they had contacted the credit department on behalf of clients in the past. The South East Water team learned that clients were referred to Good Shepherd's financial counselling service from community centres and by social workers in the social welfare and legal systems.

Dalglish said he and his colleagues liked what they heard from Good Shepherd and believed that the organisation could help them with their problem.

“We had talked to a range of organisations but we felt we were more aligned with Good Shepherd than any other organisation, both in values and geography. Good Shepherd was keen to look at long-term solutions and address the causes underpinning financial hardship.”

A partnership?

The South East Water credit department decided that some form of formal partnership with Good Shepherd was required to enable South East Water to offer financial counselling to customers in financial hardship with unpaid bills. Dalglish explained the idea in broad terms to a Good Shepherd counsellor, and suggested that she and David Munro, Manager of Good Shepherd's Hastings branch, come in to discuss how it might work. Munro said:

“This was a very unusual request. We hadn't had an approach from a corporate like this before. Traditionally financial counsellors have an adversarial relationship with big companies like South East Water. We are usually advocating on behalf of our clients, trying to get these organisations to understand their difficulties and negotiate a solution.”

Munro said there were mixed reactions when the idea of a partnership was discussed among senior managers at Good Shepherd. “Some people were sceptical. They thought we would be co-opted to collect debts for them. Other people saw it as a real opportunity. We could work on the inside of large company, helping it deliver on its corporate social responsibilities.” The Good Shepherd team sat down as a group and worked out a list of baseline commitments that they needed from South East Water if the arrangement was to be acceptable. Good Shepherd had a long history of

independent community work aiming to provide social justice. No one wanted to embark on a relationship with a large corporation if that meant compromising the organisation's principles. With a list of questions in hand, a group including Munro and other Good Shepherd managers then met with Dalglish and his management team.

"We were very surprised," said Munro.

"They had really done their homework. Every question we asked them, they had an answer for. Could we maintain the right to advocate on behalf of clients? Yes, fine. Could we maintain our right to speak out publicly when we saw inappropriate behaviour from utilities? Yes, fine. They were very aware of our need to maintain our focus on social justice and our independence."

South East Water asked the Good Shepherd team to develop a costed proposal for a package of financial counselling services it could make available to its customers in need.

Over several months the proposal was refined and negotiated between the two organisations. South East Water emphasised issues like the scope of the funding to be provided and which indicators would be used to monitor the performance of the partnership. Good Shepherd wanted to preserve its independence and ensure clients would not get the wrong idea about the nature of the link between the two entities.

Eventually a final draft of the proposal was agreed. Good Shepherd would be provided with funding for one year from South East Water. This funding would be used to provide a free and confidential financial counselling and support service for people with financial problems. The scope of the service would include counselling, information about financial matters including options for dealing with debts, advocacy or negotiation where appropriate, and referrals to other support services. Good Shepherd's staff would be completely independent and in no way obliged to South East Water to recover debt.

The proposed objective of the partnership would be to help customers overcome the causes of their financial difficulties and build the capacity to meet their ongoing financial needs, including paying their future water bills as they fell due. The total financial position of the client, not just the outstanding water account, would be covered. Good Shepherd's counsellors would also provide training to South East Water staff about the causes of financial hardship and how to effectively work with vulnerable and distressed customers and have input into the company's policy development. In addition, a Good Shepherd representative would sit on South East Water's "Customer Advisory Committee".

The proposal went to the South East Water board for sign-off and was approved in July 2002.

New personnel

A few months prior to the partnership commencing, a major organisational restructure took place at South East Water. Terry Dalglish, the person who had pushed hardest for the link with Good Shepherd, moved to another part of the company and was no

longer involved in the partnership. Steve Davis was promoted into the role of Credit Manager, reporting to a different branch manager, within the new structure. David Munro of Good Shepherd said these changes added to the nervousness between the partners. “We then had a new leadership group of people involved at South East Water who did not have the full background in relation to the issues. We could see they were grappling with it. Understandably, it took them a while to understand where everyone stood.”

One of Good Shepherd’s first steps was to recruit a new financial counsellor to be the project manager in the partnership with South East Water. It decided to invite staff from South East Water to participate in the interviews with candidates and in the selection process. Sue Carroll, a counsellor who had worked for more than 15 years in the sector working for local government, independent agencies and charities, was hired.

Carroll said she was very conscious of the different organisational culture at South East Water.

“For me it was like getting in bed with the enemy because South East Water was one of these utilities that I used to battle with! There is a culture among financial counsellors that is quite militant. We work very hard on behalf of our clients; we protect and advocate for them however we can.”

Carroll said that in the first few months she had some doubts about whether it would work out.

“I felt there was a real expectations gap at the beginning. I didn’t know if they thought that the debts were going to disappear. There might have been a perception that because people were given the option of seeing a financial counsellor that they would take it up. But people don’t always do this, they often find it very difficult to deal with their outstanding debts, they can ignore letters as they have a lot of other things to worry about.”

Early days in the partnership

Once the partnership had been formalised it took several months before counselling services began to be delivered. This led to some unexpected frustration at South East Water and some slight tensions between the two organisations. Munro said:

“Nothing very abrupt was said but you could hear the anxiety being expressed as to how long it was taking for the program to roll out. At an organisation such as South East Water, the culture is ‘Make a decision, purchase a product or service, and get it delivered on date X’. Our culture at Good Shepherd is very consultative and consensus-driven. So our timelines and rollout approach weren’t necessarily consistent. We thought it was very important at the beginning to spend some time looking at the referral protocols between South East Water and us. We thought we should sit down with them and see how the credit department operates, introduce ourselves and build an understanding of where the other was coming from. For everyone at Good Shepherd it was very new and we wanted to make sure we got it right first time. We feared that if there were hiccups at that early stage then the whole partnership would be seen as a failure.”

Steve Davis, who was a team leader in South East Water’s credit department at the time said: “I think at the start the Good Shepherd team probably thought we were

pretty demanding, a bit pushy. Here it is a corporate culture – if your boss or the board wants something, you stop what you’re doing and get it done. We probably assumed that we were funding this partnership, so the Good Shepherd people would respond to us the same way a normal supplier would.”

The partnership at nine months

At the end of the first nine months, the number of customers who had received financial counselling from Good Shepherd was well down on South East Water’s expectations. According to Munro, nothing untoward was said but he received a lot of calls from South East Water asking for updates on the rollout timeline.

“I think the senior managers had a lot riding on this. They had gone out on a limb and asked the South East Water board to approve this partnership with us. The board had trusted their judgement and committed the funds, so there was now an obligation to report back on progress. And at this stage we weren’t doing things that a board would be looking for. We were working on the referral protocols, bedding down community education programs etcetera. But the board would have wanted to know how many people in financial hardship we’ve seen and what difference we were making.”

Munro said the relationship with South East Water was still very respectful. He believed both parties trusted one another’s expertise but were not seeing eye to eye all the time. “It was a little messy at first, no question. It certainly wasn’t developing in the linear way we would have liked.”

The question for the partners was how to iron out the niggling issues.