



# Water Poverty – a real threat in the UK?

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The rising cost of fuel bills have been a hot news topic for a number of years now (Guardian, 2014; Independent 2014, The Economist, 2013), but water bills have received less attention. Wessex Water has the second highest water bills of any Water Company in the UK, at an average of £478 per property. Due to these high prices, up to 7% of Wessex Water customers find it difficult to pay the water bill (Wessex, 2014).

High prices have resulted in total unpaid debts to the water industry of over £1.6 billion, adding an average of £15 on to each person's water bill (Defra, 2012). This is three times higher than the average debt in the energy industry (Defra, 2012), despite the fact energy bills are three times higher than water bills.

High levels of debt are believed to be because many customers know that they have no chance of having their water supply cut off (OFFWAT, 2011). According to the Water Industry Act 1999, Water Companies are prohibited from restricting a person's water supply for non-payment of bills. Water Companies are therefore limited in the ways they can get customers to repay debts, such as taking people to court. This harms people's credit scores and therefore perpetuates the poverty cycle for these vulnerable customers.

Energy companies have been led primarily by legislation in helping vulnerable customers, for example via the Warm Home Discount, Winter fuel payments and the cold weather payment (Fuel Poverty Action, 2014). However, guidance to the water industry has been more limited. The Flood and Water Management Act was adopted in 2010, and Section 44 of the act requires water companies are required to:

*“Balance the desirability of helping individuals who would have difficulty paying in full with the interests of other customers.”*

Prior to this water companies were not allowed to offer preferential rates to customers struggling to pay. However, with the advent of this piece of legislation, water companies had to consider what the morally correct way to approach this balance was. There is no water industry code of ethics, and therefore no moral guidance taken on how to approach this balance. It is a matter for each individual water company to decide. This essay will therefore consider what the most ethical approach is to dealing with bad debt, and what approach we should take as a responsible company.

There are a number of options for recovering this debt, with a last resort being to take customers to court. However, County Court Judgements can be expensive, and third party debt recovery agents generally have a low success rate. In addition, county court judgements affects customers credit ratings for up to 6 years, perpetuating the poverty cycle (Moore, 2010).

Since privatisation in 1989, Wessex Water have invested over £5 billion in infrastructure, which has resulted in halving water leakage rates and much improved environmental health of water ways. There is therefore a need to balance the environmental need for investment, a fair return to the shareholder and the social impact of high water bills (especially on poorer customers). This is a classic sustainability dilemma, and there are a number of approaches proposed in the literature on how to deal with this.

One sustainability model which could be used is the ‘triple bottom line’ approach, first proposed by Elkington (1998). This is an accounting approach that not only considers the economic performance of a company, but also its social and environmental performance. The implications of the triple bottom line to Wessex Water’s ethics dilemma considered here are shown in Table 1.

**Table 1- The Triple Bottom Line (Elkington, 1998)**

| Dimension          | Definition                         | Applicability to Wessex Water   |
|--------------------|------------------------------------|---|
| <b>Economy</b>     | Financial stability and fairness   | Need to ensure bills are kept as low as possible, and ensure a fair return to the shareholder. Also need to ensure interest rates on bonds are kept low by demonstrating fair returns.                  |
| <b>Society</b>     | Fairness to all in society         | Need to ensure most vulnerable customers are protected. Wessex Water a major employer in the area, with a core staff of 1800, supporting many more jobs. Need to provide safe and clean drinking water. |
| <b>Environment</b> | Minimise impact on the environment | Major impact on aquatic environment and biodiversity. Large improvement in water quality in the UK since the 1970s due to work carried out by water companies, but many of these schemes are costly.    |

According to this thinking, Wessex Water should attempt to add social value, not only by avoiding unnecessary distress and additional costs to its poorest customers, but by having an overall *positive* effect on society and the environment, whilst maintaining a fair profit. There is a balance that needs to be kept between the three outcomes, such that benefits to society are not at the expense of the environment as described in the table above. The ethics of how this should be approached therefore have to be considered.

Crane and Matten (2010, p46) define Business Ethics as “the study of business situations, activities, and decisions where issues of right and wrong are addressed”. Although the social aspect of the triple bottom line has trailed behind the environmental and economic aspects (Scott et. al.2000), it can be argued that the access to water for all make the social aspect as important as the other factors in this case. Some have argued that access to clean water and sanitation should be considered a basic human right (Article31, 2014).

Human Rights or Natural Rights was an idea first developed by John Locke. Locke stated that there are “universal and inalienable” rights that every human being possesses, regardless of *legal rights* which will differ in different regions (Crane and Matten, 2010). Basic human rights were enshrined in statute eventually by the Declaration of Human Rights in 1948, based heavily on the work of philosophers such as Locke and Thomas Paine.

The right to clean water was missing from the UN’s 1948 treaty, although there has been a recent campaign to add it (Article31, 2014). The human right to clean water and sanitation was only explicitly recognised as recently as 2010 by the UN (UN, 2010), owing to the cost involved with providing clean water, unlike John Locke’s original natural rights. There are currently 780 million people in the world who do not have adequate access to clean drinking water supplies (WHO, 2013). Although water companies should be able to expect a fair return, they should carefully consider their responsibility as a vital public resource.

This human right to water is not universally accepted. In July 2014, Detroit Water Authority began a programme of cutting off water supplies following non-payment rates of greater than 40%, leading to protests (*New York Times*, 2014). Similarly privatisation of water supply in Bolivia led to riots and ultimately to re-nationalisation of the water supply (Astle, 2005). The benefits of water privatisation are far from clear as shown by the above examples and in the literature (Renzetti and Dupont 2003). Private Water Companies arguably therefore have an additional responsibility to protect vulnerable customers.

Although the rights of poorer customers are the main focus here, it is important to consider all stakeholders in the dilemma. Stakeholder Theory, as first introduced by Freeman (1984) allows us to identify who the important players in the dilemma are. Stakeholders were originally defined as:

*“any group or individual that can affect or is affected by the achievement of a corporation’s purpose”* (Freeman, 2004).

However, there is currently little agreement over who or what a stakeholder constitutes (Crane and Matten, 2010). Crane and Matten therefore offer the definition:

*“an individual or group which either is harmed by or benefits from the corporation; or whose rights can be violated, or have to be respected, by the corporation”.* (Crane and Matten, 2010, p62)

Wessex Water has multiple stakeholders as defined under this second definition, with an interest in how vulnerable customers are treated. These are outlined in Table 2, together with their primary aims and focus.

**Table 2 – Stakeholders in Wessex Water**

| <b>Stakeholder</b>   | <b>Interest in how vulnerable customers are treated</b>   |
|--|---|
| <b>All Customers</b>   | Desire to see lower bills and want to see that customers are treated fairly   |
| <b>Vulnerable customers</b>                                      | To be treated fairly and to keep bills affordable   |
| <b>YTL (Wessex Water majority shareholder)</b>                   | Increase profits and therefore returns, but also that Wessex Water are seen as a sustainable to meet their own sustainability goals |
| <b>Wessex Water staff</b>  | To see the company to continue to make a profit so they can keep their jobs. To work for a sustainable, responsible company         |
| <b>Social Responsibility groups (e.g. CAB)</b>                   | To see vulnerable customers treated fairly  |
| <b>Environmental Pressure groups (e.g. Friends of the Earth)</b> | That water company spends a larger proportion of their income on  |
| <b>Business suppliers</b>  | That water company stays in business and continues to buy goods from them   |
| <b>Government</b>  | A fair deal for all customers and for company to be seen as acting responsibly  |
| <b>Regulator (OFWAT)</b>   | Fair deal for <i>all</i> customers and that required upgrades to the network are made   |
| <b>Consumer council for water</b>                                | Fair deal for <i>all</i> customers at the lowest cost   |

It is clear that there are many conflicting objectives amongst the stakeholders in this dilemma. Each of these groups cannot be considered equally though, and it can be argued that poorer customers who are unable to pay bills have less of a voice when considering the options Wessex Water should take.

Where perfect competition exists in a market, consumers are able to drive the market to produce what they want, as is one of the fundamentals of capitalism (Begg and Ward, 2008). However, this is reliant on consumer sovereignty, or customers' ability to choose, as defined by Smith (1995).

Consumer sovereignty is split in to three categories to determine level of choice, as shown in Table 3. Consumers have no choice in which Water Company supplies them which means customers have low sovereignty, with some groups having very low sovereignty. According to this model, Wessex Water have a duty to provide as much information as possible to customers on what options are available to them.

**Table 3 – Consumer Sovereignty as applied to Wessex Water (Smith, 1995)**

| Dimension                  | Definition  | Applicability to Wessex Water  |
|----------------------------|---|--|
| <b>Consumer capability</b> | Cognitive and physical ability of customers to choose   | Number of vulnerable customers (disabled, elderly) who need guidance on options available. |
| <b>Information</b>         | Information available in order to make informed choices | Communication routes such as leaflets, adverts and working with community interest groups. |
| <b>Choice</b>              | Ability of customers to change suppliers                | No possibility   |

*Adapted from Smith (1995)*

Using these models, it is clear that Wessex Water do have a moral obligation to help vulnerable customers, but there are also many conflicting aims from stakeholders. However, the moral intensity of the dilemma should also be considered.

As this is a difficult and important issue, it would be considered to have a high *moral intensity* (Jones, 1991). In order to establish what the moral response should be taken a model of ethical decision making can be used, such as Jones (1991). This is outlined in Table 4.

**Table 4 – A model for ethical decision making**

| <b>Dimension</b>                 |
|----------------------------------|
| <b>Recognise Moral Issue</b>     |
| <b>Make moral judgement</b>      |
| <b>Establish moral intent</b>    |
| <b>Engage in moral behaviour</b> |

Taking all this together, the moral approach to the issue can be derived. Wessex Water do not have a code of ethics, with the closest thing being the Sustainability Vision. The vision has the overarching aim that “Wessex Water aims to be a truly sustainable water company”, and all business decisions should be guided by this. The Wessex Water Sustainability Vision states that we will “Operate a charging system which is affordable to all our customers” (Wessex Water, 2012).

The actual approach to customers who struggle to afford to pay their bills can be said to have followed the models from the literature closely. Wessex Water have what is claimed to be the most extensive affordability programme of any water company in the UK (Wessex Water, 2014). This has helped 15,000 homes already who have difficulty in paying their bills, and involves customers paying a lower annual rate for water bills depending on what they can afford, and also write down of historic debt.

One criticism of the scheme could be that customers have to approach Wessex Water before these measures can be applied. Wessex Water have decided not to apply this universally to a single group of customers (for example, those on benefits), as many of these customers do have the ability to pay and conversely, many customers not on benefits can struggle to pay bills. However, methods for promoting the scheme have been extensive, as shown in Figure 1.

## Figure 1- Methods for contacting customers in need of support

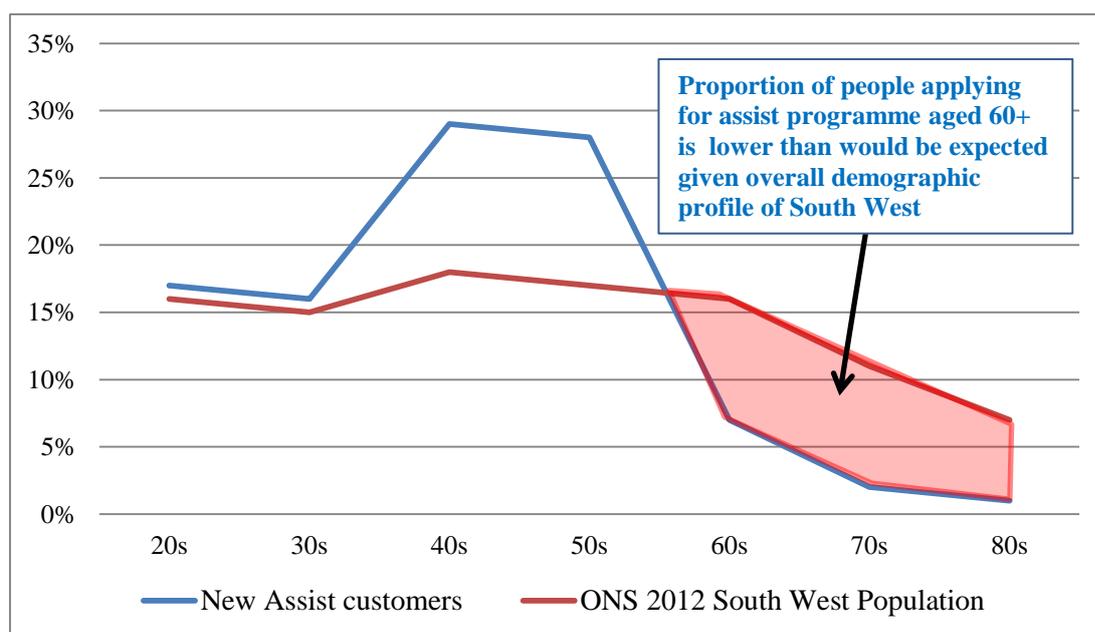
- *Push on self-help and assisted self-help channels*
- *Joint mailshot with StepChange to 500 customers who contacted them previously*
- *Editorials in local publications, websites and e-bulletins*
- *Flyers and /or posters distributed to:*
  - *Housing associations (often in with rent statements)*
  - *Job Centres (given to job seekers)*
  - *Children’s Centres*
  - *Credit Unions*
  - *Food banks*
- *Talks at various community meetings with promotional stands*

*Lindsay, 2014*

In addition to these support schemes, Wessex Water implemented its Money Matters scheme, which has awarded over £400,000 to local charities to provide advice to people living with debt problems (Wessex Water, 2014a). They also provide advice in schools to help the next generation of customers, which can be seen as a proactive approach.

The scheme has not been universally successful so far, and certain demographics have been difficult to reach, such as pensioners, as shown in Figure 2.

**Figure 2- Customers applying for assistance and actual demographic of Wessex Water region - Data taken from ONS (2014) and Lindsay (2014)**



The overall approach taken by Wessex Water to poorer customers can be assessed by various models from the literature, to test how responsible they have been in their actions. One such model is Carroll's 4 part model, which is outlined in Table 5.

**Table 5- Carroll's 4 part model of corporate social responsiveness (Carroll, 1979)**

| Dimension            | Definition  | Applicability to Wessex Water  |
|----------------------|---|--|
| <b>Reaction</b>      | Denial of responsibility of social issues   | N/A  |
| <b>Defence</b>       | Admits responsibility but fights it, doing the least that can possibly be required. | N/A  |
| <b>Accommodation</b> | Accepts responsibility and does what is demanded of it by relevant groups           | N/A  |
| <b>Pro-action</b>    | Goes beyond industry norms and anticipates future developments.                     | As outlined above, this is probably the most applicable to Wessex Water's approach |

*Adapted from Crane and Matten (2010, p67)*

Given the approach to debt advice in school, and targeting customers who are vulnerable but who don't currently have help, it could be argued that Wessex Water have reached the 'Pro-action' level of social responsibility.

This sustainable approach brings with it an enhancement of Wessex Water's reputation, and arguably puts it in a stronger position when negotiating charges with the regulator OFWAT. The approach with the poorest customers also has a positive financial effect on the business, as more money is recouped than if a full rate is attempted to be charged to customers who cannot afford to pay. Finally Wessex Water are keen to develop their own approach rather than having legislation forced upon them to protect vulnerable customers. As has been shown, legislation can be bad for business, and voluntary agreements can often work better (McEvoy & Stranlund 2010).

As there have been many benefits for Wessex Water in this approach, it could be seen as an example of *enlightened self-interest* (Porter and Kramer, 2006). Some have suggested that these kinds of socially responsible actions can only ever be taken when in the interest of the company (Bakan, 2004). However, even if this is the case the benefits to customers struggling with debt are undeniable, and this is not the only approach that could have been taken.

As of 2013 Wessex Water were still one of only three water companies to have introduced a social tariff (CCW, 2013), helping customers struggling to pay bills. Its approach has been genuinely industry leading. Currently none of the safe guards apply to business customers, who can still be disconnected for non-payment of bills. Some groups have recommended that vulnerable customers of business customers should be considered (APPG on CSR, 2006), and this may be something to look at in the future.

Although there is still much to be done, the approach taken so far would appear to meet best practice requirements to have reached Carroll's 'pro-action' level. However, as demonstrated customers struggling to pay water bills have very low *Consumer Sovereignty* and therefore as much information as possible should be provided on options available to them, to ensure the scheme continues to be industry leading.

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