

VOLUME ONE:

INTRODUCTION TO THE FRAMEWORK FOR BUSINESS PLANNING

TOWN WATER SUPPLY AND SANITATION PROGRAMME

Prepared by WRc
for the Water and Sanitation Program

March 2004

Any enquiries relating to this report should be referred to
Simon Gordon-Walker, at the following address:

WRc Swindon, Frankland Road, Blagrove, Swindon, Wiltshire, SN5 8YF,
England.

Telephone: + 44 (0) 1793 865061

Fax: + 44 (0) 1793 865001

The contents of this document are subject to copyright and all rights are reserved. No part of this document may be reproduced, stored in a retrieval system or transmitted, in any form or by any means electronic, mechanical, photocopying, recording or otherwise, without the prior written consent of the copyright owner.

This document has been produced by WRc plc.

CONTENTS

Introduction	1
Background to Business Planning	2
About the Business Planning Toolkit	5
1. Why change the existing approach?	7
1.1 Establishing the need for change	8
1.2 Problems facing most municipally owned and operated utilities	10
1.3 Business planning - who should be interested?	16
1.4 When is a business plan used?	18
1.5 What are the expected benefits?	20
2 What is a business plan?	23
2.1 Business planning framework	24
2.2 Analysing the existing situation	32
2.3 Features of a business plan	31
3 Approach to preparing a business plan	41
3.1 Approach to preparing a business plan	42
4 Typical contents of a business plan	49
4.1 Typical contents outline	50
5 Using existing and new data	57
5.1 Using existing and new data	58
6 Business plans as communication tools	65
6.1 Communicating through the planning process	66
6.2 What can be said?	70
7 Managing the business and review of the business plan	75
7.1 Managing the business	76
7.2 Revision of the business plan	80

Introduction to the Framework for Business Planning
Introduction

INTRODUCTION

The objective of this document is to provide the theory behind the business planning process to help senior managers who are undertaking to organise business planning in their water and sanitation utilities and that they can better understand the concepts of business planning. Information is presented in a discussion style aided by a structure to assist in maximising learning.

This Introduction document (Volume 1) and the Guidelines to Preparing a Business Plan (Volume 2) should be considered as an integral part of the Business Planning Toolkit. In the Guidelines document you will find a copy of the Toolkit spreadsheets as an excel file on disc and as hardcopy spreadsheets in the relevant chapters. The Guidelines document will assist the utility manager and team to undertake the preparation of the business plan.

Readers of this introduction document are expected to gain an appreciation of the arguments and theory of a particular subject in the “Concepts and principles”. “Tools and skills” contain useful models or step by step guides where applicable to assist in practical analytical work. The “Exercises” are intended to facilitate drawing out important decisions out of the participants which customise the discussion to their utility or identify areas of misunderstanding which should be corrected.

- Town water utilities aim to provide the best possible services that consumers are prepared to pay for. A business planning approach will focus on planning and design in a way that is integrated with willingness to pay. This may result in new constructions and expansions of service being done in a modular (phased) approach.
- A modular approach to design means that the system components (source, storage, pipes etc.) are designed to serve the demand from existing customers and from those willing to connect to the new network. The system is expanded only when there is a real increase in demand from new or existing customers.
- A modular approach to investment is more likely to mean affordable tariffs because of the lower initial capital and operational expenditure. Getting this balance right and making sure that design matches demand based on what customers are prepared to pay for connections and the service, is at the heart of the business planning process, and is the basis for financial sustainability.

Readers are encouraged to read this Introduction in full and carry out the exercises before attempting to write a business plan, and before using the Guidelines for Preparing a Business Plan. Readers are also encouraged to use the material presented here as a basis for developing an understanding of how different aspects of the business planning process will be able to support your utility's future planning.

BACKGROUND

In countries where decentralisation reforms are underway, one of the choices that towns have to make is about the type of utility that will provide their water and sanitation services. If towns are served by a large utility or competent Private Company, then the utility/company can be expected to take the lead on the planning process; but where towns seek to establish their own town utility, they need to develop a water and sanitation business plan.

The idea of business planning is not new, it is the basis for any arrangement for service provision. However, in town water supply and sanitation the capacity to understand and apply the principles of business planning has often been overlooked. In addition, the preceding discussion identifies a number of issues that have not been addressed in the past, including modular approaches to design, and a 'best value' approach to service provision that requires business planning to be carried out as a continuous process that can adapt to changing needs.

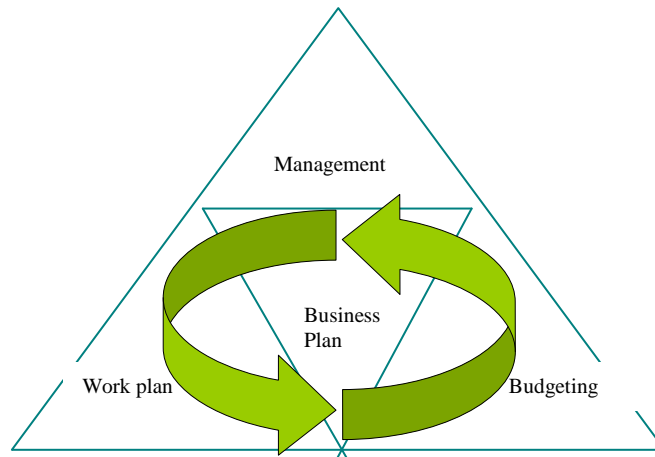
Why prepare a Business Plan?

Business planning helps town water utilities to plan operations, investments and finance in a sustainable and affordable way:

- It provides a means to share information with employees, customers, political leaders and potential investors, so that there is agreement on the utility's plans;
- It makes sure that investment decisions take account of what consumers want and are prepared to pay for;
- It ensures that revenues are sufficient for "full cost recovery", i.e. the utility is financially sustainable;
- It helps the utility to monitor financial and technical performance;
- It supports performance-based contracts with employees or a Private Operator, by helping to identify and agree on performance targets;
- It helps to support activities needed for performance improvements, such as water quality monitoring, benchmarking, and external audits.

The use of business planning by a town water utility can also support the introduction of best practice in other areas of the utility's operation as it seeks to improve its efficiency in service provision.

As you plan to make investments for improvements in your system, business planning provides a way for you to see what the financial implications are. This then allows you to make decisions which are best for the utility to operate and improve its performance in a financially sustainable way, and at the same time meet the expectations of your consumers.



The overall purpose in the business planning process is to motivate and coordinate the many different skills, talents and perspectives in the water utility to work together to achieve common objectives.

Business plans need to include:

- An investment plan - To ensure that planning is affordable, including appropriate design (matching design with demand, based on willingness to pay surveys) and financial sustainability, and to understand potential future consumers, and plans to expand and upgrade services;
- A financing plan - Including how and from whom the money to pay for the investment plan will be raised;
- An operations plan – Management and staffing arrangements including professional support and training;
- A procurement strategy – To identify professional support needed, and to institute principles of partnering .
- A financial management and reporting plan - To monitor performance and meet regulatory obligations;
- A marketing and communications plan - To offer informed choices to consumers, including the type of connection, and to keep decisions transparent.

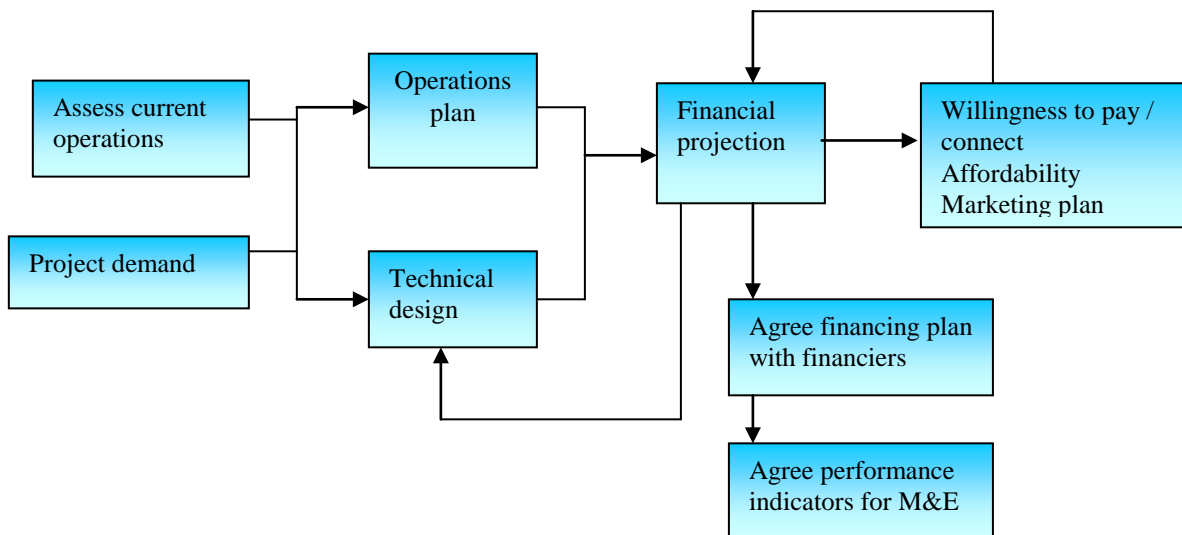
Business planning is best understood as an iterative and participatory process. Extensive consultation is required between all stakeholders, in particular between the utility and their customers. The continuous process of consultation leads to development and updating of the business plan, and to a sense of partnership in meeting the objectives.

Business planning also provides an important tool to develop better governance structures at town level, in particular in the establishment of autonomous water utilities, taking decisions and having responsibility at a local level. This is a good starting point for improved regulation of town water supply and sanitation, because utilities are better able to generate performance data and be aware of other information that is important to successful service provision, including:

- Willingness to pay;
- Appropriate design;

- Financial modelling;
- Tariffs and connection fees;
- Compliance with drinking water and discharge quality standards; and performance indicators

The Business Planning Process:



Business planning is not a one-time activity. It is a continuous process of setting objectives, making plans, monitoring and reviewing, and adopting plans. The utility must constantly plan and finance new projects and extensions in service to upgrade, expand and improve.

Regular publication of information, and good communication on decisions and activities is also important in towns, because the water system is a large part of community life, and the Management Board and Operator must gain the trust of local communities. Where performance indicators can be understood in the context of town business plans, they also provide the basis for benchmarking.

Communications strategy	
For the Management Board	For the operator
<ul style="list-style-type: none"> • Have a clear vision of what it wants to achieve • Work with all stakeholders • Be open and consultative • Publish information to help accountability and explain decisions • Keep up a steady flow of press information about its work • Publish information on the performance of the utility • Ensure mechanisms are in place to receive consumer feedback 	<ul style="list-style-type: none"> • Know what its consumers want and are prepared to pay for • Provide information to consumers on its services and complaints procedures • Report honestly on performance to regulators / Management Boards and consumers • When things go wrong admit it and try to put things right

ABOUT THE BUSINESS PLANNING TOOLKIT

The “Business Planning Toolkit” has been developed by WRc (Water Research Centre) as part of the World Bank’s Town Water Supply and Sanitation Initiative. The Town WSS Initiative promotes options for improved water supply services in towns, including autonomous, financially sustainable town water utilities.

“Business Planning” is important for town water utilities, who should aim to provide the best possible services that consumers are prepared to pay for, while at the same time achieving full cost recovery.

The principle of “full cost recovery” is fundamental for sustainable town water supply. Initial investment in new town water systems or major rehabilitation may be partly or wholly financed by the government; but after this one-time grant, towns are on their own. Full cost recovery for town water utilities means that after the town water system has been constructed, the utility should be financially self-sufficient. All future costs for operation and maintenance, renewal and replacement, expansion and service upgrades must be paid for from revenues or borrowing. If subsidies are available, then they need to be properly accounted for.

Business planning is not difficult, but it does require time and effort to get the information needed so that you can make well informed investment and management decisions, based on consumer demand and careful financial analysis (financial model).

This toolkit is a disc with a Pro-forma in WORD document and an Excel workbook with guidance notes that can be used to create a financial model of the water supply utility. It is user friendly and provides guidance, explanation and examples to help you. It can be downloaded on to your computer.

The results from the Toolkit will show how your costs for investment and operations match with your income from customers and therefore whether your utility will remain financially viable.

The key performance indicators that can be used for decision making purposes from the Toolkit include:

A. Financial

Operating revenue / Operating costs

Profit after financing and tax

Cash balance at year end

Debt service ratio

Current liquidity ratio

B. Setting future targets

Service:

Proportion of population supplied with water - whole area

Residential per capita consumption

Proportion of population supplied with water - core area
Proportion of population supplied with water - fringe area

C. Efficiency targets

Operating and Maintenance Cost

Debtor months outstanding

Collection efficiency

Unaccounted for water

Staff per 1000 connections

Average monthly bill for each supply type

Average price per m3

OpEx per m3 by heading (staff, power etc)

Density of connections

1 WHY CHANGE THE EXISTING APPROACH

Overall objective

To describe why business planning is necessary.

Units

- 1.1 Establishing the need for change.
- 1.2 Problems facing most town owned and operated water utilities
- 1.3 Business planning - who should be interested?
- 1.4 When is a business plan used?
- 1.5 What are the expected benefits?

1.1 Establishing the need for change - Concepts and principles

All organisations are subject to pressures

Pressures cannot be avoided. They generally result from the different objectives of various interest groups. For example: the government and regulators may want to see high quality drinking water supplied to larger numbers of people or to have utilities be self financing and autonomous. This may require increases in tariffs to recover higher capital and operating costs, but conflicts with customers who wish to see low tariffs.

Additional pressures may arise from the introduction of new drinking water quality standards, new tax regulations, industries demanding a guaranteed supply of water, customers wanting inaccurate meters replaced and so on.

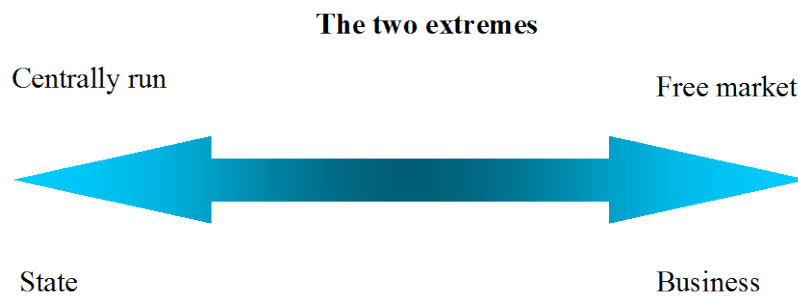
The organisation needs to respond appropriately to these pressures in order to continue its existence. In most instances the existing systems and procedures are more than adequate in meeting the pressures imposed.

On occasions, however, the nature of the pressures means that existing methods are inadequate and cannot sustain the “business”. The move away from a centrally planned economy is one such example.

All economies need planning

Planning is essential in all economies. Two extremes exist: the centrally run economy where all planning is done at state level, and a pure free market economies where planning is carried out at business level.

In practice most economies are somewhere between the extremes, with strategic issues being planned centrally and businesses being free to undertake their own planning activities to implement operational tasks.



The term *business planning* describes the methods used by organisations to identify and present the activities needed to address the pressures placed upon them.

The organisation needs to respond appropriately to these pressures in order to continue its existence.

Business planning describes the methods used by organisations to identify and present the activities needed to address the pressures placed upon them.

All water service providers need to communicate with customers

The population, as customers and consumers of services, need to be recognised as the most important stakeholders for public services.

Communicating and understanding the requirements of customers is a fundamental aspect of any organisation's operations and future planning. This includes providers of water and sanitation services.

Customers provide the water utility with its income and it is the customer's views and opinions that are the real judges on the utility's quality of service and value for money.

Business planning is a tool for developing an understanding and relationship with customers of town water supplies. It is especially important to have information about customer preferences in the context of planning future expansions to the service.

Fundamental to planning town water systems is determining willingness to connect (how many people will connect, how much will they pay to connect), and willingness to pay for water from the system (how much water will they use, how much will they pay). Planners need data from surveys in order to test the financial feasibility of their designs. However, initial input on willingness to pay is only a part of planning. The process of expanding and upgrading the system is an on-going part of managing the system in consultation with consumers, and your planners with the utility need to constantly update their information:

- Which neighbourhoods should be initially served with the improved system?
- Where, when and what criteria should be used for making future network extensions?
- How are decisions about connections handled? Should consumers be offered the choice between a lower tariff and a connection fee, or a higher tariff and no connection fee? Should subsidised connections be provided to low-income households? What are the eligibility rules for getting one?
- What is the tariff and how should it be enforced? How often should consumers be billed?
- What are the rules for selling water to neighbours without connections? What are the rules for shared connections, and selling bulk water to 'community' groups?

Offering consumers a choice in the type of connection, the connection fee and the frequency of billing, means that more people can access the network, and the utility sells more water. Over time, many more people can be expected to upgrade to household connections.

1.2 Problems facing most municipally owned and operated organisations - Concepts and principles

Too much interference

Many persons working in the government sector face a similar set of challenges. They are operating an organisation or running a department which interfaces with other government bodies and are constrained in the ability to make decisions or changes. This is particularly true in the water utility sector which affects most members of the community who feel something could be done better than the way things are today.

Every customer becomes an expert!

The truth is they are right. From their perspective, they may wish to see things done differently. We must listen to our customers and try to provide them as much as possible to meet their requirements.

The water utility situation is further complicated by all the controls and approvals the local municipality wishes to impose on top of the demands of the regulatory bodies such as government ministries or taxation departments.

Often times the municipality does not appear to consider the perspective of the water utility. This results in demands which appear to favour customers who do not appreciate the cost of providing and investing in dependable, good quality water supply and waste water services. Municipalities may feel that the organisation is not working as efficiently as possible and are critical.

The existing approach can be unsustainable - a more formal approach to business planning will help to address the issues.

Lack of responsibility

A greater problem to come to terms with is the attitude within most government utilities and department. Government employees rarely feel responsible for their actions because they do not feel ownership of the business unit they are running. Since it is a government organised activity and the assets are government owned, everyone is responsible and nobody takes responsibility.

Even in the government sector, those people who are employed to manage a department or run a utility must assume the responsibility that comes with the job. That is, it must be run as if it was your own. The Managing Director is responsible for the profitable operation of the water utility.

The problem of responsibility is deeper than that of the Managing Director's. Employees of the government sector often view themselves protected under the "umbrella" of the broad nature of government and do not see the impact of their individual work efforts. Yes, it is true that many functions are shared but every individual's job makes an important contribution to the overall success of the utility.

Put the municipality's demands into perspective - they cannot be avoided and therefore need to be actively managed.

The formality of the business planning process helps to define what will be done, by whom, and by when - it encourages responsibility.

The methods by which employees are organised, their jobs described and performance monitored and evaluated can have a great effect on changing these attitudes toward responsibility. The planning process encourages responsibilities by defining who does what and by when.

There is a need to clarify the roles and responsibilities of those involved in the business planning process.

Lack of financial resources

Managing a water utility is a long term business. Costs need to be covered for daily operational expenses and longer term maintenance and rehabilitation including capital investment. Often tariff structures do not provide for both of these components and nor do they permit the utility to maintain break-even or profitable results.

Unfortunately, in most places the strategy of the past was one based on long term investment needs being provided by the state or a funding agency with consumers only paying for current operational needs. We must recognise that investment needs to be based upon consumer demand that will be willing to pay. The traditional practice of increasing tariffs based on percentage increases of electricity, chemical or other operational expenses is insufficient.

Water utilities must respond to the challenges by:

- bringing cost efficiency into their operations,
- prioritising critical capital investment needs,
- communicating the plan to all stake-holders concerned,
- developing tariff structures that provide for full cost recovery.

The key to gaining access to sources of external capital is to demonstrate that the utility is, and will be, managed in a responsible and cost efficient manner.

The business plan can be used to demonstrate how finances will be used and that customers are getting value for their money.

Problems facing most municipally owned and operated utilities - Tools and skills

Putting a perspective on the interference

Table 2 Framework for assessing importance of issues

Source of interference	Problem area	Possible Meanings
municipality	tariff increase not allowed	- insufficient justification - lack of understanding
municipality	controllers inspect company	- no trust, no information
municipality	demands are unreasonable	- poor understanding of water operations
municipality	decisions politically motivated	- water has high profile
customers	do not pay bills	- not satisfied with service - poorly informed - weak cost allocating costs - cannot afford level of service
customers	service complaints	- need more information - lack of communication
Government	unreasonable quality demands	- poorly designed standards

Many of these problems can be reduced by providing more, properly prepared information on a regular basis to increase the general understanding of the water utility activities. Consider what you are doing now to communicate to each of these audiences.

Lack of responsibility

Better definition of contracts, processes and job descriptions will identify roles and responsibilities of all parties.

- Supply and service agreement between municipality and utility.
- Commercial agreement between customers and utility.
- Mapping of core processes in the business.
- Job descriptions with responsibilities, performance criteria and time frames for completion.

These will assist in avoiding duplication of effort and developing an effective water utility operation.

Lack of financial resources

Comparison of features in different approaches increasing tariffs.

Table 3 Comparing alternative approaches for tariff increases

Existing method	Alternative method
next year's tariffs based on last year's costs	next year's tariffs based on next year's costs
delay in approving increases	approval done to an agreed timetable
decisions politically motivated	independent of politicians
results in: - late increase in tariffs - under-recovery of costs - revenue uncertainty - difficult to plan annual budgets	results in: - increases on time - full recovery of costs - reduced uncertainty - easier to plan budgets for coming year

To begin to develop a tariff methodology a number of steps are required including the following:

- develop an understanding of how the utility is creating expenses,
- plan for elimination of unnecessary costs,
- monitor and demonstrate that costs can be controlled,
- develop appropriate tariff structure to recover costs,
- communicate the plan to build confidence that you control the situation.

The main point about the alternative approach is that the tariff calculation is based on estimates of future costs.

The organisation does not have to incur additional costs in order to justify increasing tariffs.

Problems facing most municipally owned and operated utilities - Exercises

1. List the three most important problems facing your water utility.

2. What is the single most difficulty you have today with;

consumers

municipality

employees

3. What can you do in the next year to improve the situation with each of the above groups?

consumers

municipality

employees

4. How can you apply the business plan and the preparation process to help you fulfil the above solutions?

The three main parties with an interest in the enterprise companies' business plans will be the utility itself, customers, the municipalities and potential lenders of capital funds.

1.3 Business planning - who should be interested? - Concepts and principles

A number of groups will have an interest in the water utility's business plans will be the utility itself, the municipalities, consumers and potential lenders of capital funds.

As part of the process of preparing the business plan, you will have addressed a whole series of questions about your specific utility. The process of thinking about and developing these ideas should result in greater clarity about how to solve the problems currently faced. Ideally, the solutions will include activities covering a number of different areas.

For this reason the plan will provide some initial guidance about the tasks that need to be undertaken to attract external finance for capital investment projects. The managing director with overall responsibility for running the utility will be able to use the plan to begin developing the areas which will be important in order to attract external capital.

The municipalities, often as the owners, also have a strong and legitimate interest in the business plan. This is particularly in assessing the impacts of new capital investment and likely impact on customers' tariffs. Clearly in many situations the political basis for setting tariffs can be unsatisfactory since doubts about the size and timing of tariff increases makes forward planning difficult.

The business plan will set out the implications for tariffs arising from the normal activities of the business and from additional capital investment to meet specific problems. This information can be used to justify to the municipality the size of tariffs needed, and their timing, in advance of them actually being required.

Another of the main interest groups will be potential external lenders of capital funds. A certain amount of supporting information about the utility's operations will need to accompany each application for capital funds. This information is likely to include details of tariff increases needed to meet repayments, the development of certain key functions (e.g. accounts systems according to recognised standards), and project management procedures needed to successfully implement capital projects.

The business plan therefore needs to include sufficient information to satisfy the needs of these important stakeholders. It is likely that each will require different levels of detail and a slightly different set of information. The important point is that whatever information is required it should be possible to draw it from the basic business plan.

The business plan therefore needs to include sufficient information to satisfy the needs of these three main parties.

Business planning - who should be interested? - Exercises

Name 4 groups with an interest in your utility

1. _____
2. _____
3. _____
4. _____

Why are these groups interested in your business?

1. _____
2. _____
3. _____
4. _____

The main user of the plan should be the utility itself in providing guidance about the overall direction of the organisation and the main activities needed to bring about the changes required.

Business plans will be used to assess the utility's suitability for receiving capital from lenders.

1.4 When is a business plan used? - Concepts and principles

The use of a business plan is very closely linked to who is using it. The main user of the plan should be the utility itself in providing guidance about the overall direction of the organisation and the main activities needed to bring about the changes required. In these circumstances the plan will be used to direct the activities needed at any one time, to monitor their progress, to determine what supporting tasks need to take place, and to assess the overall outcome.

Used in this way the plan will provide useful information which will allow managers to develop the business in a way that begins to address some of the pressures placed upon it. An important additional use for the utility will be an ability to compile reports as required for external parties, e.g. the municipality, customers and potential lenders of capital.

The municipality could be expected to use the utility's business plan in circumstances that related to the standards of service being provided, e.g. actual water quality delivered as measured against the target standard, and when considering tariff increases, e.g. is the increase needed to fund new capital works, to meet increasing power costs, or to maintain existing assets. In both circumstances the information provided will allow the municipality to assess the longer term impact of current decisions and to develop realistic plans of action.

Similarly, the information provided to potential sources of new capital will be used to assess the risks associated with lending to any one municipality. Typical of the risks considered will be:

- How secure is the municipality from a financial point of view?
- Do existing revenues cover costs?
- What changes in tariffs/costs are proposed to repay the proposed loan?

The answers to such questions will determine whether or not the application for a loan is successful, and conditions imposed on it.

When is a business plan used? - Exercises

List two circumstances when you believe that a business plan will be useful.

1. _____

2. _____

Why will potential lenders be interested in an utility business plan?

1.5 What are the expected benefits? - Concepts and principles

As owners of the business plan the utility itself can expect to secure significant benefits. One of the main features of business planning is that it imposes a framework which helps to ensure that all issues are tackled in a rigorous manner. A second feature is that it forces the utility to anticipate events in the near future and to incorporate them into the plan. Effectively undertaken, these disciplines produce the following benefits:

- more accurate estimates of future operational expenditure,
- identification of future capital expenditure,
- improved information for revenue planning,
- justification of tariff increases,
- realistic programmes for developing the utility,
- greater clarity in roles and responsibilities of the utility and the municipality.

Similarly, the municipality can be expected to secure a number of benefits. With stronger justification for tariff increases, and an assessment of the implications of allowing a smaller increase than requested, it would be easier for the utility to argue its case. This would benefit the municipality by providing improved information for decision making leading, ultimately, to better decisions.

An involved lending agency also benefits by having access to improved information. It allows them to assess application for funding more quickly and with greater certainty than would otherwise be the case. This will eventually lead to more successful investments for the lender, which improves its overall standing and helps to safeguard its future as a successful organisation.

To stand a good chance of securing longer term benefits the utility business plan needs to be an honest assessment of the current situation and to establish realistic objectives. Without these the expected benefits are extremely unlikely to materialise.

Properly developed and implemented, the business plan brings significant improvements in the accuracy of financial calculations.

What are the expected benefits? - Exercises

In addition to the organisations listed above, name 2 further groups who could be expected to benefit from a business plan.

- 1. _____
- 2. _____

List the departments/groups in your utility, and state how you might expect them to benefit from a more formal approach to business planning.

- | | | |
|----|-------|-------|
| 1. | _____ | _____ |
| 2. | _____ | _____ |
| 3. | _____ | _____ |
| 4. | _____ | _____ |
| 5. | _____ | _____ |
| 6. | _____ | _____ |
| 7. | _____ | _____ |

Why change the existing approach? - Key Learning Points

- The existing methods will not sustain in the long term - the utility needs to adapt.
- Main groups - utility, customers, municipalities and potential leaders - have a strong interest in the business plans being developed.
- Business plans can be used to assess the utility's suitability for receiving capital from leaders.
- Properly developed and implemented the business planning process brings significant improvements in the accuracy of financial calculations.

2 WHAT IS A BUSINESS PLAN?

Overall objectives

To outline the main features of a business planning process.

To demonstrate that business planning is the dynamic and continuous process of estimating future performance and reviewing the utility's business agenda over time. This requires documentation in a format which allows regular updating in response to actual business conditions.

It is also a participatory process involving stakeholders from the utility, its customers, political leaders and potential lenders of capital funds.

Units

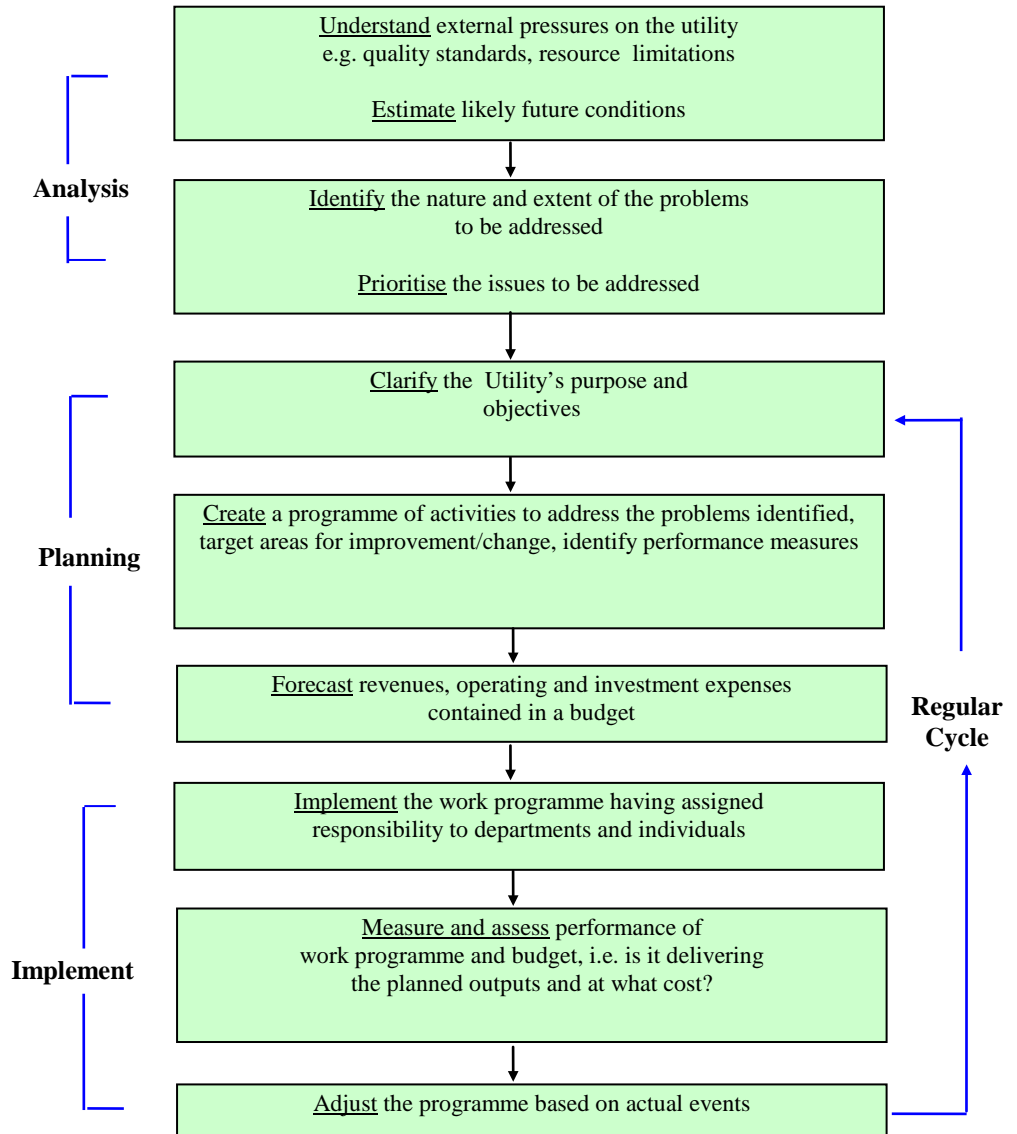
- 2.1 Business planning framework.
- 2.2 Analysing the existing situation.
- 2.3 Features of a business plan.

There are three distinct stages in the framework for business planning: analysis, planning and implementation.

2.1 Business planning framework - Concepts and principles

The framework for the management process shown below indicates three distinct stages, analysis, planning and implementation.

Framework for the Management Process



The management process is dynamic and cyclic which involves adjusting the plan to reflect actual events.

Analysis - identifying likely future pressures on water utilities and understanding the existing situation which, together, provide a measure of the “performance gap”,

Planning - establishing company objectives, identifying the activities needed to address the performance gap. The activities combined form a work plan which sets out the timing of initiatives, associated costs and, importantly, performance measures against which the success of the initiatives can be gauged. Also identified are the additional activities needed to support the effective

implementation of the business plan including staff training, organisational change, revenue and expense budgeting, etc.

Implementation - an ongoing stage which implements and monitors the business plan.

The diagram conveys the dynamic nature of the management process. It is not a one-off exercise, but a cyclic process which involves measuring performance in a number of dimensions and adjusting the business plan to reflect actual events.

Analysis

In any transformation of a business there must be a need for change defined. Without this, any existing inertia will prevent movement from the present direction. Often, a comparison of the present situation and the future direction will expose a gap which will require bridging.

Awareness for change can be increased by dedicating time to analysing and understanding the resources available, internal factors and external pressures which impact on consumers and on the water utility.

The external pressures that are imposed onto the utilities are primarily;

- political,
- economic,
- regulatory,
- health constraints.

Internal to the utility, there are performance gaps which develop and also create a need for change. Some of these factors can be;

- decline in cost efficiencies,
- utility policies no longer appropriate,
- ageing work-force,
- change in technology and skills requirement,
- depreciating assets.

A change in resource condition can also create a need for change.

- availability of water supply,
- water quality at source and standards,
- availability of state funding,

Awareness for change can be increased by dedicating time to analysing and understanding the forces which impact on consumers and on the water enterprise.

At the conclusion of the analytical stage the utility should be able to identify, quantify and prioritise problems.

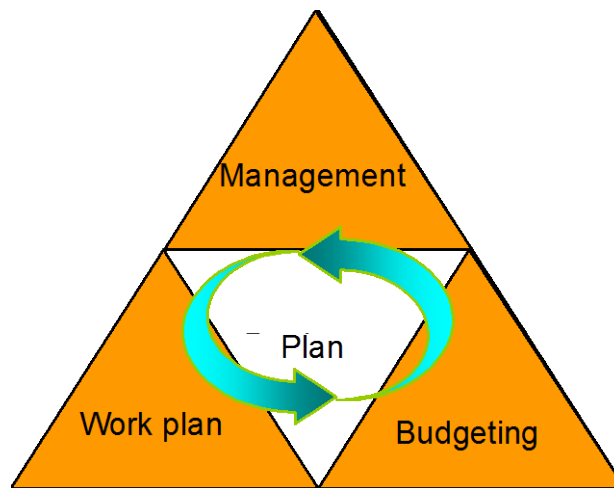
- availability of funding through tariffs.

All of these above mentioned issues have a potential to change in the future, for better or worse, and in some fashion create a difference in what is wanted and provided for customers, the community or the utility.

At the conclusion of the analytical stage the utility should be able to identify, quantify and prioritise problems.

Planning

The figure below is used to describe the components of planning which form the backbone of the business plan document.



Having defined and prioritised the utility's problems during the analytical stage, management of the utility are in a position to;

1. Clarify the utility's purpose, vision of the future and objectives in a manner which can, and will be communicated to customers and staff.
2. Identify possible solutions which may resolve the identified problems.
3. Develop a collection of programs or initiatives to put these solutions into practice. This can be called a "work plan".
4. Project the financial cost and benefit to the profitability of the utility. This can be called a "financial plan."

The overall desire in the planning process is to motivate and coordinate the many different skills, talents and perspectives in a utility to work together achieving common objectives.

The overall desire in the planning process is to motivate and co-ordinate the many different skills, talents and perspectives in a utility, to work together achieving common objectives.

Thus, by communicating the utility problems, objectives and priorities to employees, they may assist in defining the most practical and efficient way to put solutions into practice. The employee commitments to make the necessary changes are management's tool for subsequent monitoring and review.

As support to these changes, there will be requirements for training, new equipment, organisational restructuring, etc., all which have resultant costs and savings. The expense budgets are a means of monitoring progress.

Work plans may be divided into two types based on timing for ease of monitoring:

- Long term (2 -5+ years) - Capital Investment Program
- Short term (< 2 years) - Operations Management Program

A third dimension is necessary to capture the method by which the above two programs will be financed:

- Short and long term - Revenue Generation Program

By combining revenue and expense budgets, overall financial reports are made available describing the economic health and profitability of the utility.

Implementation

The final stage in the framework for the management process is making the plan come true. Once a business plan has been assembled, and employees have agreed to work to achieve what was proposed, a manager's role becomes far easier than before.

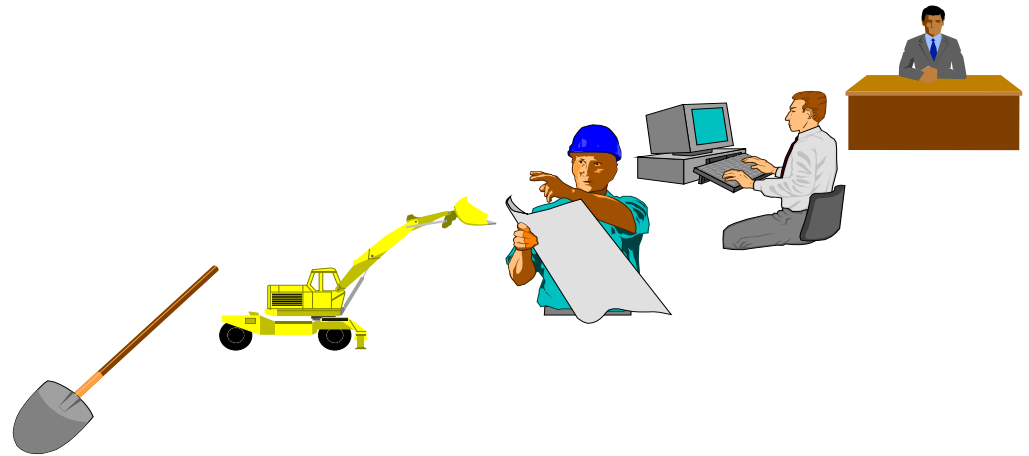


Diagram showing possible stages in delegation from manager downwards

- Responsibility for decisions can now be given
- to the lowest competent level in the organisation.
- Manager's role changes from supervisor to facilitator or helper in time of trouble.
- Manager's tools become the measurements and reports which compare actual results to those in the business plan.
- Manager's time is spent confirming that actual results are working according to plan because of his employee's efforts and only becomes involved when things are not working according to plan.
- "MANAGEMENT BY EXCEPTION"

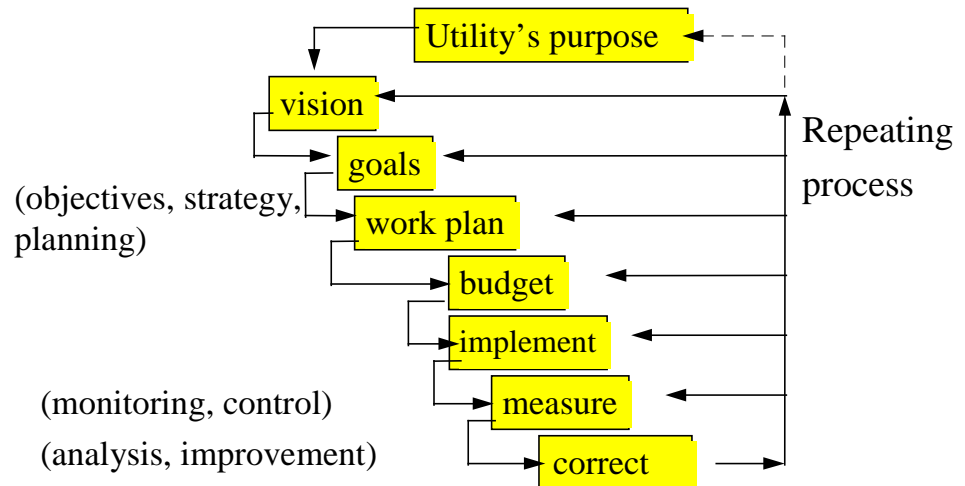
During implementation of the business plan, a manager uses the plan as a road-map to confirm with employees what needs to be accomplished.

As the year progresses, a time comes to update the business plan. Work plans and budgets are improved based on the valuable experience gained during this implementation stage using the business plan as a reference point.

If the business plan has been prepared as a document to use during the year as an implementation tool, the preparation of the next year's business plan becomes a review of the management reports used during the year and projection of how the future will be managed.

Business planning framework - Tools and skills

Alternative way of viewing the planning and implementation cycle.



Business planning framework - Exercises

1. What are the three distinct stages in the framework for the management process?

2. What are we trying to accomplish in the first stage?

3. What is our overall desire in the second stage? _____
4. What does a manager use the business plan for in the third stage?

5. Give yourself 20 minutes and a place to concentrate. Based on what you have heard, let your imagination jump to the future, one year into the future. Write a short story of what is happening in your utility regarding the business planning process.

Describe how you imagine this information has been introduced to your people. How have you organised the persons to prepare a business plan? Are you using the first document within or outside of the utility?

Judge your time appropriately to fit into the 20 minutes.

Business planning framework - Key Learning Points

- There are three distinct stages in the framework for the management process; analysis, planning and implementation.
- The management process is a dynamic cyclical process which involves measuring performance in a number of dimensions and adjusting the business plan to reflect actual events.
- Awareness for change can be increased by dedicating time to analysing and understanding the resources available, internal factors and external forces which impact consumers and the water utility.
- At the conclusion of the analytical stage of business planning the utility should be able to identify, quantify and prioritise problems.
- The overall desire in the planning process is to motivate the co-ordinate the many different skills, talents and perspectives in an utility, to work together achieving common objectives.
- During implementation of the business plan, a manager uses the plan as a road-map to confirm with his employees what needs to be achieved.

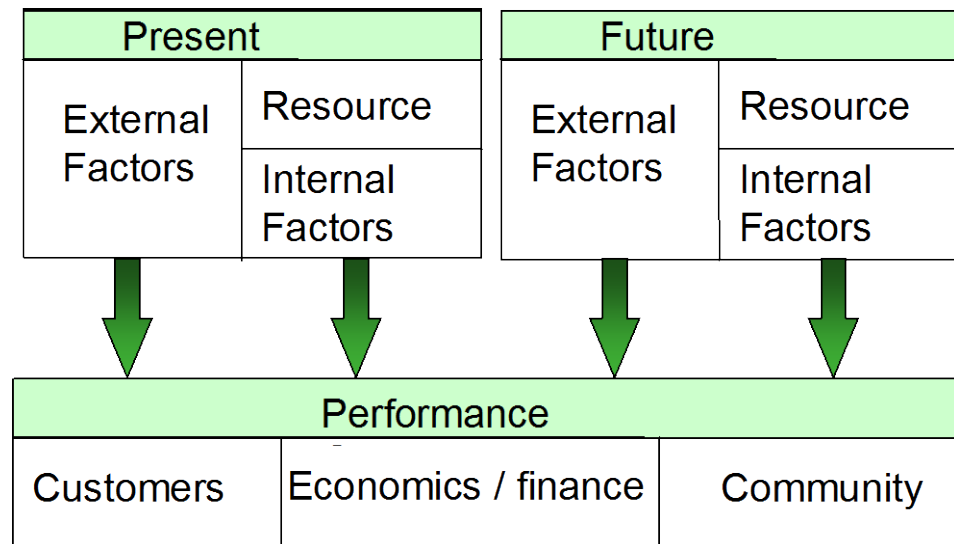
2.2 Analysing the existing situation - Concepts and principles

Having established that there are difficulties with the existing approach to running the water business, the pressures that give rise to these difficulties need to be assessed. Without some form of assessment, it would be common for the senior management to feel overwhelmed by the multitude of daily and long term problems. The result of this condition is a form of paralysis, management can do nothing but complain about how bad things are.

This analysis stage seeks to;

- put the pressures into categories,
- identify which of those pressures the utility has an influence over,
- determine the relative importance of the pressures,
- develop a co-ordinated plan of action.

A grid has been prepared to assist with segmenting the various pressures or problems.



Assess the existing situation - what are the pressures acting on the utility and what is the relative importance of each pressure.

1. The various pressures or problems felt by water utility need to be placed into one of these categories so that they can be put in better perspective of what really is important. A priority item should be identified for each category if possible.
2. Issues should be identified as those which the utility has no control over and those which it may influence. External factors should be considered outside of the utility's control.
3. Concentrate finding solutions on the highest priority items only where the utility can control the results.

Some examples of issues that should be considered are presented below;

- clarify the roles of municipality with respect to the water utility,
- reduce the iron content in drinking water,
- upgrade/develop wastewater treatment facilities,
- develop an approach to manage the disposal of wastewater sludge,
- meet tougher wastewater treatment standards,
- consider the issue of affordability of tariff increases.

It is likely that different utilities will have different priorities. For this reason there is a need to look at the local situation, to assess the relative importance of each of the topics listed (and others), and then to determine an appropriate response.

A more detailed listing of the grouping of problems is presented below to assist you with the grouping exercise.

PRESENT SITUATION	
<p><u>External Factors</u></p> <ul style="list-style-type: none"> -political agenda -international agreements -country economics -regulatory bodies -service standards -environmental standards -tax authorities 	<p><u>Resources</u></p> <ul style="list-style-type: none"> -availability of water supply -water quality -state funding -tariff funding
	<p><u>Internal Factors</u></p> <ul style="list-style-type: none"> -performance measurement -enterprise policies -enterprise economics -human resource output -asset stock

A very similar table may be prepared for the future direction by identifying the trends for each of the issues listed above.

Pressures found due to poor performance also need to be categorised to more readily determine priority solutions. It is difficult to quantify the size of the problem when performance criteria is not available. More will be discussed later in the guidance document about setting and measuring performance indicators.

<u>PERFORMANCE GAP</u>		
<p><u>Customers</u></p> <ul style="list-style-type: none"> -water quality -supply/demand -service levels -contractual commitments -communication -affordability 	<p><u>Economics / finance</u></p> <ul style="list-style-type: none"> -fixed overheads -variable operating cost -investment needs -sources of finances -charging mechanism -tariff setting -debt recovery 	<p><u>Community</u></p> <ul style="list-style-type: none"> -water treatment facilities -waste water treatment -pollution sources -environment -social responsibility -standard of living

Having identified the pressures that impact upon running the utility, a number of points need to be addressed including the following:

- in which order to tackle the issues,
- what data are required for each issue,
- who holds the data, how much data to collect (if required),
- what time scales are available.

As an example, affordability is likely to be an issue that all utilities need to address.

Data will be required for each topic and a coarse analysis required before deciding on how best, and in what order, to respond to the pressures.

How much can customers afford to pay for water and wastewater services? What household customers can afford to pay will be constrained by local circumstances, e.g. the local unemployment rate, average income, and the prices of other essentials (accommodation, food, etc.). This data can be used to develop the policy for charging, and for setting tariffs at a level that people can afford.

Such data will be required for each topic and a coarse analysis required before deciding on how best, and in what order, to respond to the pressures.

Analysing the existing situation - Exercises

1. Given the issues you listed in Section 1.1.1 against each of the following groups, list the data *needed* to help the utility address them?

consumers

municipality

employees

2. List the 5 main sources of data in your utility. Also assess the accuracy of each data source (in terms of high, medium and low) and state when each source was last updated.

source of data	accuracy	last updated
<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>

Every business plan needs to be realistic in terms of its objectives, the activities identified and the proposed timescales.

Business planning takes the widest view of an organisation and the environment within which it operates.

2.3 Features of a business plan - Concepts and principles

Maintaining realism in the business plans

Every business plan needs to be realistic in terms of its objectives, the activities identified and the proposed timescales. The business plan, at its simplest, can be viewed as a list of activities which when implemented will begin to address the pressures placed on the utility.

In developing a plan and assessing how realistic it is the following set of questions could be usefully applied to each of the main activities.

- What skills are needed to carry out this activity?
- How much time is available?
- Who is going to do the work?
- How much time do they have available?
- What support is required from other senior staff?
- What information is needed, how good are existing data sources?

If the answers indicate a shortage of skills, time, information and money, then the scope needs to be reduced and the activity needs to be broken down into a number of sub-components or to extend the time available. This will place more realistic expectations on those carrying the activity out, and make the satisfactory completion of the activity more likely.

Business plans vs. investment plans

Business planning takes the widest view of an organisation and the environment within which it operates. The main activities of operational management are related to the activities needed to running a business on a day-to-day basis. For water utilities this will include the following activities:

- managing water abstraction, treatment, storage and distribution,
- taking routine samples of drinking water quality,
- responding to requests from the municipality and customers,
- managing wastewater collection, treatment and disposal,
- organising labour gangs,
- maintaining records of company expenses,
- dealing with creditors and debtors, and with the bank,

Operational management focuses on the activities needed to provide a daily service and to maintain existing assets.

Investment planning is focused on the activities needed to create new assets or to undertake major refurbishment of existing assets.

- preparing customers' bills,
- preparing staff wages,
- maintaining the operability of existing assets, i.e. routine maintenance.

These activities will be carried out on a routine basis, some daily, some monthly, but the point is that they are all required for the smooth and efficient operation of the utility. The costs associated with these activities are generally regarded as operational expenses.

These routine activities are defined as business planning.

Investment plans

In addition to the above, utilities will from time to time need to invest in new capital works and on replacing old defunct works. This investment will be driven by a number of forces - possibly the introduction of new wastewater standards, or regulations on sludge disposal, replacing mains providing a poor level of service.

The key feature of capital investment is that it will occur intermittently and at infrequent intervals. It should therefore be regarded as an additional activity taking place as and when needed, and not as a routine task that can be planned alongside the routine operational activities described above. The costs associated with investment plans are generally regarded as capital expenditure.

Features of a business plan? - Exercises

1. From your own experience, list 3 decisions made by the municipality or by Government which resulted in significant changes in your utility

- 1. _____
- 2. _____
- 3. _____

2. What problems did these decisions cause for your utility?

3. How did the utility go about solving the problems?

4. Briefly state in you own words what you believe a business plan to be.

5. List three areas where capital investment is needed in your utility.

6. For each of the three areas listed above, state why capital investment is needed.

What is a business plan? - Key Learning Points

- The first step in the process is to assess the existing situation - what pressures are acting on the utility and what are their relative importance.
- The availability of data will be important in determining the quality of the analysis.
- To have any chance of success, business plans must be realistic.
- A business plan takes the widest view of the organisation - the pressures upon it and the routine activities needed to manage those pressures.
- Investment planning is focused on the activities needed to create new assets or to undertake major refurbishment of existing assets.

3 APPROACH TO PREPARING A BUSINESS PLAN

Overall objective

To provide a step by step approach to organising the preparation of a business plan.

Units

3.1 Approach to preparing a business plan.

3.1 Approach to preparing a business plan - Concepts and principles

MYTH # 1. Preparing a business plan is just following a prescribed formula, put in the appropriate ingredients and out comes the answer.

A business plan is more than just a document. It is the paper record of a process the company has gone through, demonstrating that it understands;

- the purpose and objectives of the utility,
- its external environment and the conditions or constraints it imposes,
- the characteristics and needs of the market it serves,
- the assets and operational performance of the business today,
- how it wishes to work in the future,
- physical and financial results which can be achieved if everything works according to plan,
- the potential risks and deviations to plan which can result if matters do not work as expected.

Think of the business planning process as a way of clarifying your own thinking or even better, to gain consensus or support from the organisation to work together in a more co-ordinated fashion.

Throughout the business planning process, you will want to record the information you have discovered about the utility and the outputs of the conclusions that were made when decisions had to be taken when projecting the future activities of the utility. Think of the business planning process as a series of meetings at which you record;

- who does what,
- who says they will do something,
- when it will get done,
- how much will be done.

The business plan is a structured collection of the minutes of these meetings.

People are unpredictable at most times and because of this, the business planning process can be organised like an agenda, but the performance of the people participating may vary, which leads to the variation in the quality of the business plan as well. If the information is not sound or the people contributing have limited skills or interest, the output could be questionable.

There is no recipe to preparing a perfect plan, but there are guidelines which can be followed to take you through the process and keep you focused on the key issues.

MYTH # 2. Anyone can prepare a business plan, just sit down and write one.

Possibly the first question which needs to be answered is, “Who should be involved in the business planning process?” Let’s consider the options.

1. One person
2. Small group
3. Large group
4. Entire utility.

We can agree that involving the whole company may be impossible, but it should be noted that every employee will benefit from understanding the objectives of the utility and what they can do in their work to assist in reaching these objectives. More will be discussed at a later date about communication in the business planning process.

It is true that one person can prepare a business plan, but that will be the viewpoint of only that person. This is also not the most desirable choice since it is always best to collect differing opinions and based on the respect one may have in these persons, or the possibility that they may possess more information than you may have access to.

A small group of people from different functions need to share the workload of preparing a plan.

Depending on the size of your utility and structure, a good solution is to create a small group of 5-7 persons from differing functional positions in the company to work together and share the workload. These people could be members of the management team or a mixture of staff who are felt to be ready to consider more strategic issues for the company. It is often found to be an advantage to choose persons which can represent the major departments in the utility to obtain a balanced viewpoint. For example:

- water production and distribution
- waste water treatment
- customer services
- procurement
- personnel
- finance
- engineering.

Smaller utilities do not have as many specialists and a fewer number of persons could represent the same number of functional positions.

Persons may be the most senior in that department, but working on the business plan could also be considered developing the skill of the middle managers who

Developing and implementing the business plan and the associated activities may be carried out by a number of different people in the utility, it is vitally important that their roles and responsibilities are clearly understood.

Preparing the business plan will be easier if you use your best people.

may soon be ready for a promotion. Teams with mixtures of seniority have often worked well.

Large groups are only recommended for organisations which have a well established history of business planning. The planning activity is often organised by specialists who consider this their full time role and the process is formally organised to generate inputs from all departments. Once business planning in an organisation is developed in this fashion it become part of the culture and an actively used communication vehicle.

Defining roles and responsibilities

Given that developing and implementing the business plan and the associated activities may be carried out by a number of different people in the utility, it is vitally important that their roles and responsibilities are clearly understood.

This will help to ensure that everyone is working towards a common purpose, that the timescales are agreed, that dependencies are identified at an early stage (i.e. what you need from other people to complete your section of the business plan), and that the main components of the plan fit together in a sensible way.

If roles are clearly understood then it will be reflected in the overall quality of the completed business plan, i.e. setting out who does what and by when at the outset will yield longer term benefits.

It is likely that in smaller utilities the bulk of the work associated with business planning will fall to one person, in these circumstances this section is less important.

MYTH # 3. Preparing a business plan is easy.

The business planning process does require a time commitment and some of the decisions which surface regarding future direction become particularly difficult to make. For this reason, it is best to share the work and enlist good advisors when decisions are to be made.

Some of the greatest difficulties in preparing a business plan are;

- organising the various inputs,
- staying on track during the process when working in detail,
- recognising that you can come back and improve the plan on the next update.

This manual is intended to provide the structure to guide you through the planning process and assist in keeping outputs to an efficient minimum so that results are achievable.

MYTH # 4. Once a business plan is prepared the task is complete.

A plan is not prepared for the sake of preparing a plan. A plan is merely preparation to carry a task out. Remember that even the task of managing a utility is never completed even if the utility is profitable and continues to operate.

The business plan should be prepared so that it may be used to assist in managing ongoing activities. It is a documentation of your organisation's thoughts at a point in time and should be reviewed and improved with the learning experience provides.

Steps to preparing a business plan - Tools and skills

1. Decide on who will be the audience of the document.

Focus on the target audience - what do they want to know?

Choices: - utility management
- utility employees
- municipal board or management
- Government departments
- potential investors or financiers
- customers

Choose one of the above groups as the audience of the first business plan so that you may focus on providing the information valuable to them. Remember, each has a different perspective and relationship with the utility.

2. Decide on the basic message you want to deliver to this audience keeping in mind what they want to hear from the utility.

- Do you want to portray the company as strong or in need of assistance?
- Is this the start of a new management philosophy and approach?
- Having a message allows you to focus on presenting the right information.

3. Set a deadline for which you want to have this plan prepared by.

Many business plans take 3-6 months to prepare properly depending on;

- the degree of detail presented,
- the level of involvement of the utility,
- whether it is the first time or just an update.

The business plan needs to focus on the needs of the target audience.

4. *Select the person or persons who will work or assist in the preparation of the business plan.*

If this is the first business plan, it is suggested that you limit the participation to a small number of individuals. It is easier to train and manage the learning process.

Once the business plan has been prepared as a base document, the original authors can help organise the activities involving more people and assist in the later training.

When the business planning process becomes a regular part of running the business, the preparation can involve all departments and levels of management as a platform for organising cultural change in the utility.

5. *Discuss your objectives with this person or people to gain their support and willingness to participate.*

Those people working on the plan must believe that it is important and their efforts are valued by you. If people do not want to help you, they will make sure that the business planning process will fail. Gain their support.

6. *Clear sufficient time by providing back up support so that their normal work will continue to be done.*

You should estimate sufficient amount of a persons time will be required away from their normal duties. Use this opportunity to give new responsibilities to the next in command to prepare them for future promotions when the time is appropriate.

7. *Organise a kick-off meeting in which the division of labour, principle meeting dates and timing is agreed to.*

Bring everyone together to discuss and reach a common understanding of the importance of everyone's role and contribution. This is the start of working on a project as a team.

8. *Use the Guidance Document to guide you through the process.*

Make copies of the Guidance Document and distribute to the team for their personal use. Treat it as a map to guide you and organise the various inputs required.

9. *Create an action plan.*

Have all team members prepare a plan for two weeks to help organise their immediate activities in collecting information and preparing outputs for discussion with the rest of the team. The most important step is for you to guide the process and get people to uncover information about the company today.

10. *Get started.*

Steps to preparing a business plan - Exercises

1. Who is going to be the prime audience to receive the business plan and why?

2. What is the basic message you want to deliver?

3. Establish a deadline for completion of the initial business plan.

4. List the major departments in your organisation and select an individual from each who could work on the business plan.

<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>

Is this your business planning team or do you want to make changes?

5. Who would do their work if they were away sick for many months?
Could these people take on extra duties if necessary?

<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>

6. Prepare your own action plan for what you will do when you return to your office following this exercise in order to get the process started.

ACTION

DONE BY DATE

Approach to preparing a business plan - Key Learning Points

- Put constraints or problems into perspective - they cannot be avoided but do need to be managed.
- The formality of the business planning process helps to define what will be accomplished, by who and when. It encourages responsibility.
- Existing methods of determining tariff increases do not generally provide sufficient financial resources to meet short and longer term needs. This situation is not sustainable.
- One of the keys to gaining support for capital funding is to develop a strong and realistic business plan.
- There is no recipe to preparing a perfect plan, but there are guidelines which can be followed to take you through the process and keep you focused on the main objectives.
- A small group of people from different functions need to share the workload of preparing a business plan. Since in most cases different people will be involved in developing and implementing the business plan, roles and responsibilities of each must be understood.
- Business planning can be easier if you use your best people and give them time to do it.

4 TYPICAL BUSINESS PLAN CONTENTS

Overall objective

To introduce and to outline the main sections of a typical water utility business plan.

Units

4.1 Typical contents of a water utility business plan

The contents of a typical business plan will be largely driven by the specific needs of the enterprise and the target audience.

The contents of a plan follow a logical sequence which defines the need, identifies the responses and assesses the implications.

4.1 Typical contents of a business plan - Concepts and principles

The contents of a typical business plan will be largely driven by the specific needs of the utility. It would however be expected that business plan should include most of the following sections.

- 1 Company objectives**
- 2 External issues**
- 3 Relationships with customers - Market characteristics**
- 4 Asset stock and operational statistics**
- 5 Initiatives for change – programs**
- 6 Financial projections**
- 7 Communications plan**

The detail contained in each of these sections will vary according to the particular circumstances of the utility. The factors that will determine the detail required will include: the size of the utility, amount of new capital investment required, and the degree to which existing plans exist are available and reliable, and the existence of the relevant data and information.

The basic information to provide a theoretical introduction to the contents of a typical business plan is discussed below.

1. Company objectives

This section describes “management philosophies” are to be communicated from the onset for better understanding of what the principle intentions are for the business. These philosophies may be described as;

1.1 General utility purpose and vision - which defines what the charter of the utility is and comments on its general short and long term strategy. If the utility has a concise vision statement this would also be appropriate to mention.

1.2 Water utility business description - which identifies the company objectives. Comment on how these goals were developed and what is intended to be done with them in the utility.

1.3 Changes in the business - which lists any significant changes which may have occurred in the recent past or since the last plan which could have an impact on the management philosophies. Examples of these could be;

- change in legal status
- changes ownership structure
- major legal changes which impact the utility
- changes in directors or organisational structure

2 National issues

This section describes “external factors” to the utility which are clearly beyond its control. The information should present a picture of the macroeconomic and microeconomic environment which the utility is facing. State political conditions and health of the banking environment are issues of particular national concern. Certain subjects are common in any country;

2.1 Country economic indicators

- GNP
- inflation
- unemployment
- population
- average household income or wage index

2.2 Health and Environmental Protection policies

- changes in any standards

2.3 Other regulatory influences

- changes in tax structure, Value Added Tax
- recommendations from Government regarding tariff calculation methodologies

2.4 Water supply condition

- comment on the quality of underground or surface water resources being exploited

2.5 External supplier developments

- changes in availability of supplies or contractor selection which may impact the operations

3 Relationships with customers - Market characteristics

This section describes the characteristics of the customer base which is the consumer of water and the final bill payer. Since the water utility is considered to be reacting to the needs of its customers, these needs must be identified and their trends defined. The following items are normally considered;

3.1 Demand, leakage and metering projections

- overall water consumption forecast
- willingness to pay
- seasonality
- network leakage and operational water consumption
- major customer segment demand trends
- customer service performance requirements
- flat metering programs, rate of progress, effects on demand

3.2 Tariff impact

- household affordability and impacts of future tariff increases
- payment performance characteristics by major customer group

3.3 Changes in operational areas

- potential changes in services to be provided by the utility
- potential changes in geographic boundaries

4 Asset stock and operational statistics

This section describes the “operational state” of the utility which the management has to work with. This includes objects and human assets which must be managed in one fashion or another. The operational performance results show how successful management is in maintaining and using these assets. This section provides a basis to justify the need for certain management change programs or capital investment programs.

4.1 Asset stock, value, performance and condition

- review of above and below ground fixed assets, quantity, type, condition
- review of mobile assets, quantity, type, condition

4.2 Personnel developments

- employee numbers, age distribution, staff / hourly distribution
- departmental migration
- skill levels and training programmes
- recruitment programmes

4.3 Investment analysis- short and long term

- network rehabilitation programme performance
- above ground asset renovation programme performance
- new mains laying programme performance

4.4 Operational performance indicators

- customer service performance results
- emergency repair performance results
- operations efficiency indicator results

5 Initiatives for change - programmes

This section describes the management change programmes which are planned either throughout the utility or in specific departments. Identifying these programmes and the anticipated economic and operational performance results raises the commitment levels of those to accomplish what has been proposed and communicates the initiatives to others internal and external to the utility.

5.1 Operational programmes

- water production improvements
- waste water treatment improvements
- improved management of emergency repairs
- improved planned maintenance activities

5.2 Environmental performance programmes

- potable water testing programmes
- waste water discharge monitoring programmes

5.3 General administration programmes

- organisational restructuring initiatives
- utility wide computerisation implementation
- new management information systems and reports
- improvements to utility procedures
- human resource development programmes

6 Financial projections

This section describes the financial matters of the utility including how much the current operational performance is costing or generating for the utility and what will be the expected changes due to the proposed programmes. The objective of this section is to provide sufficient information to understand why the utility is or isn't profitable and what management is doing to improve its financial performance.

6.1 Revenue generation

- billing and collection performance
- other revenue generation

6.2 Expense budgets

- department or cost centre projections

6.3 Financial management

- assumptions for financial planning
- financial analysis
- profit and loss accounts
- balance sheets
- cash flow statements

7 Communications plan

This section describes how important it is to communicate the business plan effectively in terms of timing, target audience and methods used. A clear plan eases communication between all those concerned in the Business Plan.

- Timing of communication
 - while preparing the Business Plan
 - after the Business Plan has been written
- Target audience
 - employees
 - municipality
 - Financiers
 - Government
- Importance of a clear message. Communication is beneficial but can be dangerous if misunderstood
- Different forms of communication
 - verbal
 - written
 - action
- The Communications Strategy, see section 6

This structure has been proposed as a starting point for water utilities to gain an appreciation of the nature of information needed to describe a business. Not all utilities have or need business plans as comprehensive and detailed as the one described above. Utilities choose the level of detail they require to suit their intended use and audience. The order may also be rearranged if desirable.

Typical business plan contents - Key Learning Points

- The contents of a typical business plan will be largely driven by the specific needs of the utility and the target audience.
- The contents of a plan follow a logical sequence which defines the need, identifies the responses and assesses the implications.

5 USING EXISTING AND NEW DATA

Overall objective

To assist in removing objections to preparing a business plan due to poor quality of data or lack of data altogether.

Units

5.1 Using existing and new data.

5.1 Using existing and new data - Concepts and principles

“A perfectionist never completes his work... ...a careless person never starts to work.”

Experienced business planners will tell you that one of the difficulties in preparing a business plan is finding the correct level of information to put into the document. It is possible to touch on only key points and have a very short document to present to someone. Alternatively, some large utilities have entire departments who do nothing but prepare large documents, starting to organise the next revision shortly after completing the most recent version.

A reasonable guideline may be to;

- assess the target audience and consider what level of detail will be of interest to them,
- consider the amount of information available now,
- remember what human resources you have dedicated to the preparation and what deadline has been assigned.

The first and third points are issues which can be considered at the beginning of the business planning process. The second point, often more complex tends to surface during the preparation of the plan and can stop people from working further.

The problem is that the utility can set out to provide information which truly is needed to describe the working activities or performance characteristics, build strong arguments that these are valid indicators, and subsequently find out that data is not credible or available at all. This happens in all businesses.

Do not let a lack of data become an obstacle to preparing a plan. If needed make assumptions, and replace the assumptions with real data the next time round.

Is the data available today still of value?

Maybe the more important questions are;

- Is it data based on sound measurements or sampling techniques?
- How accurate is the data?
- Is it real data or selected to meet pre-defined norms?
- Is the data being collected and used for something useful?
- Is the data used to create process or performance indicators?
- Is the data used to make decisions?

A business plan should be a balance of actual data available and estimated projections.

Do not let a lack of data become an obstacle to preparing a plan. If needed make assumptions, and replace the assumptions with real data the next time round.

Estimated data is better than nothing.

These questions and possibly others should be asked when reviewing the data available at your company. Undoubtedly, as in most businesses which may not have had a critical review, you will find many persons spending time creating, reporting and storing data which is of little practical use.

Be aware of the quality of data within your utility. Before drawing conclusions based on data, be sure that;

- the person collecting data knows what it will be used for
- instrumentation is calibrated
- sample size, frequency and method is appropriate
- definition of terms are understood and common to both creator and decision-maker.

Some data is better than nothing.

When data is suspect or known to be of poor quality, make reference to this concern in your document, if possible, estimate the degree of possible error. Still, use what you have as a starting point, which may be corrected or improved as more information is available.

What to do when data is not available?

The other half of the issue concerning data in business plans is the need for new information which is not available today. This is a common problem when business plans are being created for the first time. Why?

- Water utilities in the past have been viewed as engineering or technological utilities not commercial businesses and therefore less need to generate financial performance indicators.
- Modern water utilities now have much greater focus on customers and their satisfaction so new indicators are needed.
- Water utilities, not having competitors, may not have been driven to improve operational performance in the past.
- Previously, when the cost of labour was less, output per employee may not have been as critical as simply physical production output.
- Foreign lenders have different criteria than national lenders for deciding to assist in development of capital investment projects.

In all of these examples, something has changed creating a new requirement for data. New programs or initiatives created as a result of the planning process will also require monitoring and evaluation of performance. When there is a shortage of data:

When data is suspect or known to be of poor quality, make reference to the concern, estimate the likely degree of error, but use it as a starting point.

When data is not available, make an estimate and revise it when better data becomes available..

1. Make an estimate as a reference point.
 2. Monitor actual performance for a short period to check the original estimate.
 3. Update the original estimate with new improved data as it becomes available.
- Business plans are largely estimates of projected future performance.
 - These documents are expected to contain a certain degree of error because it is understood that the future is not 100 percent predictable.

Using existing and new data - Tools and skills

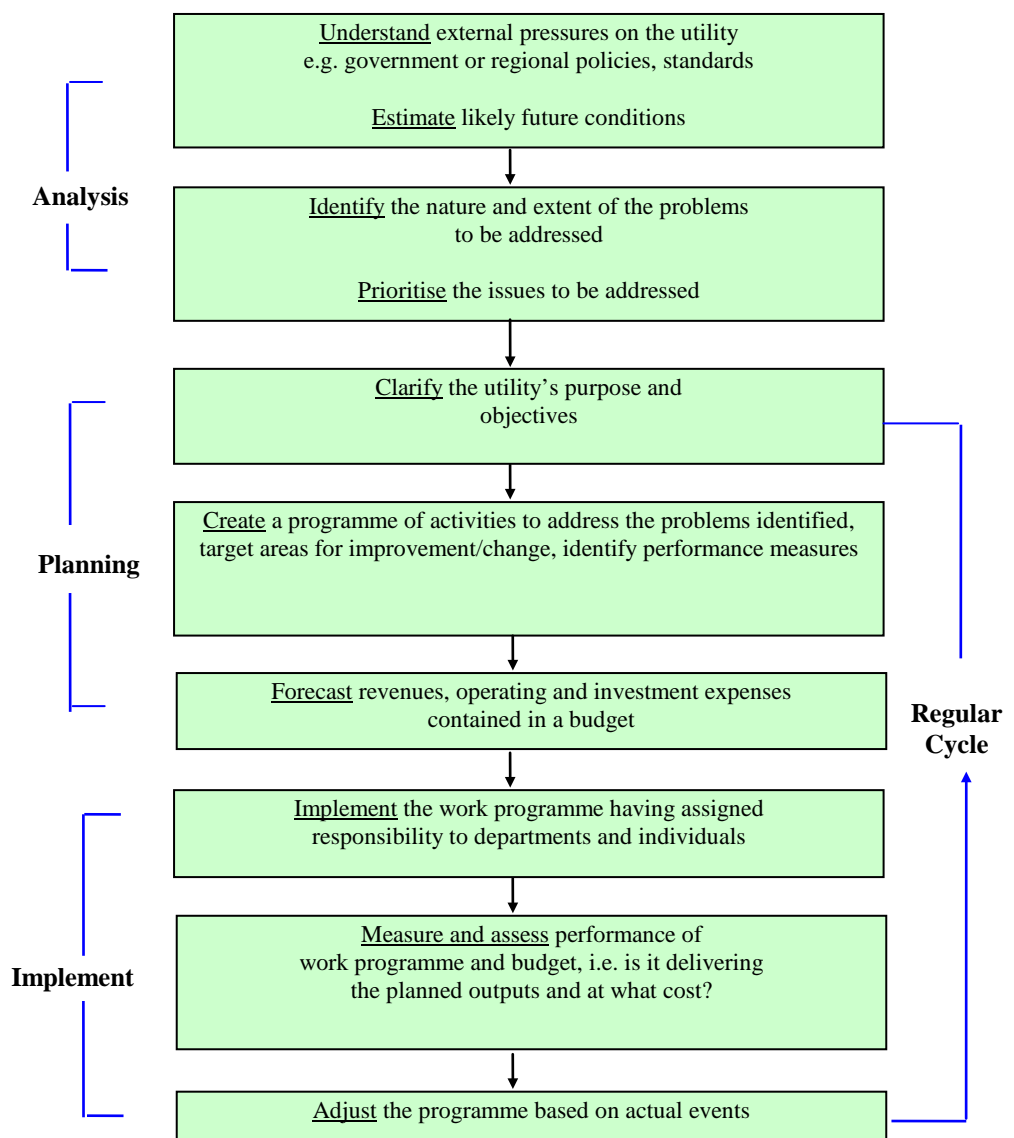
Basic framework for business planning

The framework for the management process shown below indicates three distinct phases, analysis, planning and implementation. Data will be of different types for each phase.

ANALYSIS - review of history, actual data, trends

PLANNING - estimates of future costs, performance, projection of trends

IMPLEMENTATION - monitoring, variation, response to adjustments



Rudimentary Test For Data Importance

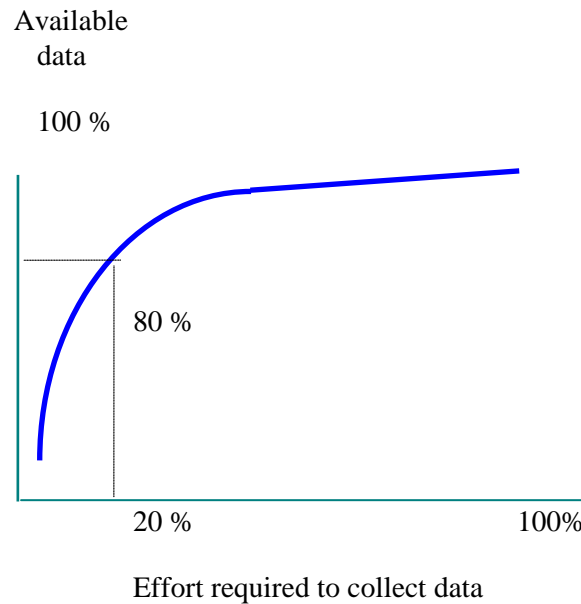
1. Select a department at random.
2. Select an employee at random.
3. Select an example of data the employee records or generates.
4. If someone does not use this information to make decisions at least once a month, the data is not important.
5. If a summary report is prepared and forwarded to someone else, stop sending the report. If someone is not calling and asking for the report within two months, the data is not important.
6. If the data is stored and not used again within 12 months, the data should be put into archives or is not important.

Applying Pareto’s Principle To Decision Making

“ You only require 20 percent of the data to create 80 percent of the solution.”

AND

“ It will require 80 percent of the effort to collect the final 20 percent of the data”



Using new and existing data - Exercises

1. Are there any departments in your utility which do not produce data or statistics? List them.

_____	_____
_____	_____

2. Have you ever checked to see how much time is spent collecting data and producing reports by the departments? _____

3. List the two key performance indicators you use to judge the results of the major departments in your utility.

<u>Department name</u>	<u>indicator # 1</u>	<u>indicator # 2</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

4. What indicators do you use to monitor;

customer satisfaction	_____
customer payment	_____
potable water quality	_____
sewage treatment efficiency	_____
water supply efficiency	_____
network leakage	_____
network condition	_____
electricity usage	_____
cost of water supply	_____
cost of water treatment	_____
network burst rate	_____
employee efficiency	_____
employee safety	_____
employee attendance	_____
employee training	_____
employee satisfaction	_____
department costs	_____
department productivity	_____
profitability	_____

Using existing and new data - Key Learning Points

- The business plan should have enough information to raise interest for the target audience, be a balance of actual data available in the utility and estimated projections, and allow completion of preparation within desired time-frames.
- Poor quality or lack of data should not be an obstacle to preparing a business plan because better information can be used on a subsequent revision of the plan.
- When data is suspect or known to be of poor quality, make reference to the concern, estimate the degree of possible error, but use it as a starting point.
- When data is not available, make the best estimate with the information had at the time and revise the estimate when better information is available.

6 BUSINESS PLANS AS COMMUNICATION TOOLS

Overall objective

To discuss how the process of business plan preparation can be used as a means of exchanging messages between the top management and employees of the water utility, customers or municipality.

Units

- 6.1 Communicating through the planning process.
- 6.2 What can be said?

6.1 Communicating through the planning process - Concepts and principles

General approach

What good will it do if you have prepared a business plan by yourself and nobody knows about it? There are three ways of using the business plan for communication;

There are three stages during the business planning process when communication is essential; before, during and after.

1. After the plan is written, use it for describing the operations, activities and performance today and how it is expected to perform in the future,
2. During the preparation of the plan, collecting input and discussing plans and proposals of supervisors, department managers and members of the management team,
3. Prior to starting the planning process, building expectation in the work-force about a new management approach which can give capable persons an opportunity to contribute to the future direction of the utility.

They have been presented in reverse chronological order to reflect the minimum use first, and to indicate that if you wish to maximise on the potential usage, it should be used as early as possible in the planning process.

After the plan is written

Sending the business plan to bodies the utility reports to, such as the municipality, is a common use. It can educate people who normally have little information about the overall nature and direction of the utility, or provide support to issues such as tariff increases or levels of service to customers which a more knowledgeable person may question. The water utility may use the business plan to explain how operating budgets are spent and what practical measures can be used to evaluate how efficiently work has been carried out.

The water utility may use the business plan to explain how operating budgets are spent and what practical measures can be used to evaluate how efficiently work has been carried out.

Another common audience which will be interested in seeing a well prepared business plan will be potential lenders of money or investors who are concerned about the security of their capital. If the utility is embarking on a capital investment project, in addition to the actual project proposal, a business plan will provide data about managers' performance against targets. The business plan will also describe the potential profitability or ability to repay loans.

Government departments will be interested in the well being of the environment, infrastructure and service provided to the community. The business plan can describe utilities programmes and performance measures today and tomorrow.

During the preparation of the plan

The actual process of preparing the plan has been compared to a meeting.

- Someone calls a meeting and selects participants
- Prepares an agenda for the meeting to follow

By inviting utility employees to participate in the preparation of the business plan, you are providing an opportunity to explain to them what you wish to accomplish and they can commit to helping in their area of responsibility.

A business plan, if presented to the utility staff correctly, provides the opportunity to influence the future motivates good workers, and often wakes up those who unfortunately have fallen asleep.

- Chairs the meeting to keep it in order
- Participants exchange information or viewpoints on a particular subject
- Conclusions are drawn on how to move forward
- Decisions are made on who will carry out certain tasks and by what time
- Date and time is determined for the next meeting
- Minutes are recorded to capture the important points in written form

Through this example we see the opportunity to communicate with the participants of the meeting. By inviting utility employees to participate in the preparation of the business plan, you are providing an opportunity to explain to them what you wish to accomplish and they can commit to helping in their area of responsibility.

Look upon the business planning process as a way of communicating your objectives to your employees.

Look upon the business planning process as a way of getting information from your employees.

Look upon the business planning process as a way of co-ordinating the many different initiatives throughout the utility to avoid duplication or unnecessary conflict.

Prior to starting the planning process

When is the last time you have made an announcement to your employees which motivated your good employees, made your mediocre staff want to become better and informed your bad employees that now is the time to turn the situation around?

Possibly the greatest impact of the business plan is in the beginning. A business plan, if presented to the staff correctly, provides the opportunity to influence the future, motivates good workers, and often wakes up those who unfortunately have fallen asleep.

Treat the introduction of the business planning process as a platform for cultural change in your utility. This may frighten your poor performers but should they not be?

Communicating through the planning process - Tools and skills

Opportunities for communication

Table 4 Opportunities for communication

Timing	Target Audience	Message
prior to starting	Employees	“Plan for the future and you can help define your own role”.
prior to starting	municipality	“Municipality can help set performance levels and form of information exchange”.
during preparation	Employees	“What can you do in your work to help achieve company objectives”.
during preparation	municipality	“Define your expectation as owners and the utility will provide the plan to work autonomously within these limits”.
after writing	Employees	“These are the initiatives and results we have committed to work toward”.
after writing	municipality	“These are the initiatives and results we have committed to work toward”.
after writing	Financiers	“Our business is under control and we can project our financial strength”.
after writing	Government	“We are implementing these programmes to meet your national policies on health and the environment”.

Communicating through the planning process - Exercises

Fill in your own ideal message for each audience.

<u>Timing</u>	<u>Audience</u>	<u>Message</u>
Prior to starting	Employees	_____

	Municipality	_____

During preparation	Employees	_____

	Municipality	_____

After writing	Employees	_____

	Municipality	_____

	Financiers	_____

	Government	_____

6.2 What can be said? - Concepts and principles

The business planning process provides you with an opportunity to bring changes and improvement to your utility.

A managing director has the possibility to explain his objectives to his management team or the entire utility.

The employees, if given the chance, can suggest how their work could be changed to help meet these objectives.

Communication can be very beneficial but it also can be dangerous if the message is not understood correctly.

Communication can be very beneficial but it also can be dangerous if the message is not understood correctly. For this reason it is important to:

- think first of what reaction you wish to invoke,
- put yourself in the position of the other person to gauge your message,
- keep the message simple.

Often times any type of change is viewed suspiciously, it is human nature to look for a problem, even where one does not exist. For this reason, you must try to limit the negative response as much as possible by emphasising the positive aspects.

If the reaction you wish to invoke is one of inevitable change, you may wish to;

1. Describe why there is a need to change,
2. What the utility is planning to do about the situation,
3. How this will effect the other persons,
4. What they can do to help.

By putting yourself in the other person's position, it will help you to select the appropriate level of complexity to describe the situation and to select meaningful examples for explanation.

Don't try to explain to the person digging a hole about the economic state of the country. This person needs to know that in the future, more output will be expected of him and he can help by suggesting how that can be done.

Never say more than you need to. By trying to provide a great deal of information to support your message, you can confuse your audience and fail to provide the basic idea.

Be aware that in all places where people work together, people talk and spread rumours. People know you are working on a business plan and will want to know how this will effect the utility, the service and themselves.

Take this opportunity to inform them on what you have done, what insights you have gained and how you hope to use this for the benefit of the rest.

What can be said? - Tools and skills

Forms of communication

Verbal - formal speeches, personal meetings, informal discussions, radio

Written - letters, announcements, utility bulletins, newspaper articles

Actions - own example, behaviour of your management, television

Components of a communication strategy

1. What is your objective?
2. Define audience or audiences.
3. What message is to be delivered?
4. Select appropriate method of communication.
5. Prepare written support documents for all verbal messages.
6. Choose timing.
7. Consider the typical questions this message will raise.
8. Prepare answers in advance.
9. Select method and timing for answering questions.
10. Determine when you will communicate again to reinforce the message.

What can be said? - Exercises

1. What are the usual forms of communication you and your people use in the utility?

2. Have you ever provided a formal report to the municipality or to customers on the activities and performance of the utility? If so, on what occasion?

3. Imagine you have the same message to give to customers, employees and the municipality.

How would your style change, if you were communicating to each one of these?

4. Create a small group with up to 7 persons and take 45 minutes to create a communication strategy for a fictitious event. Use the components of a communication strategy to structure your thinking..

“Large quantities of mint flavoured tea have been poured into the water supply system as a joke by some mischievous young men. You have decided that there is no harm to customers and the Regional Government have said that you do not need to stop supply.”

Develop two strategies: one for communicating to staff and a second for customers.

Communicating through the planning process - Key Learning Points

- There are three periods when it could be useful to communicate in the business planning process; prior to starting the planning process, during the planning process and after the plan is written.
- A business plan, if presented to the staff correctly, provides the opportunity to influence the future, motivates good workers, and stimulates poorer performers.
- By inviting employees to participate in the preparation of the business plan, you are providing an opportunity to explain to them what you wish to accomplish and they can commit to helping in their area of responsibility.
- The water utility may use the business plan to explain how operating budgets are spent and what practical measures can be used to evaluate how efficiently work has been carried out.
- Communication can be very beneficial but it also can be dangerous if the message is not conveyed correctly.

7 MANAGING THE BUSINESS AND REVISION OF THE BUSINESS PLAN

Overall objective

To discuss how the business plan can be used to guide daily activities and how often to update the plan to reflect new information.

Units

- 7.1 Managing the business
- 7.2 Revision of the business plan

People will put trust in a business plan if they see it being used as a measure of the utility's performance.

7.1 Managing the business - Concepts and principles

When time and effort has been put into creating a business plan, it only becomes real when management use the document to guide them through the normal daily activities in managing the business. Those persons who have received the plan as information or during negotiations will put trust in the plan if they see that it has become a reference tool by which the utility determines whether it is applying its efforts to achieving what it has set out to accomplish.

A good business plan is one which has been prepared so as to be useful to managers and if it is easy to update when the time is appropriate.

Remember the questions which should be answered in preparing a business plan;

1. Why is the utility in operation and why do we need to change?
2. How are we to change?
3. What will be the financial needs and results?

Assuming these questions have been answered, the business plan should have provided answers to questions such as;

1. What are the objectives?
How these are translated to operational and department objectives?
What are the local relationships and issues which generate need for change?
What are the national issues which define policies and strategies for improvement or limit the affordability of consumers?
2. What is the state of the operational assets the utility has to work with and do they need to be improved?
How is the utility performing operationally in terms of the supply of water and service to customers?
What will be done by employees to improve where necessary?
How will employee's skills be improved to contribute to better performance?
How will performance be monitored and what are the targets for improvement?
3. What investments will be needed to accomplish these objectives?
What will be the needed revenue and expenses to operate the utility?
What will be the financial results of the utility?
How will investment projects be financed?

As you can see, the answers to these questions are those which management make through the course of the year. If we are forced to think in advance, and prepare the best possible projection of what expected results are, then management becomes a matter of tracking performance and noticing what is not working according to plan.

Manage by exception, i.e. manage only those issues which do not follow the plan.

It is far more effective to correct the two issues out of ten which are not working according to plan than consume time reviewing the eight other issues where there are no problems.

In order to work in this fashion, it is important that the other people in the utility know what is planned to be accomplished so that they work toward meeting these plans.

By providing employees the answers to the questions listed above, or even better, involving them in creating the answers, you will not be alone in working to meet your objectives, but instead, you will be using the business plan to manage all employees in helping you meet these objectives.

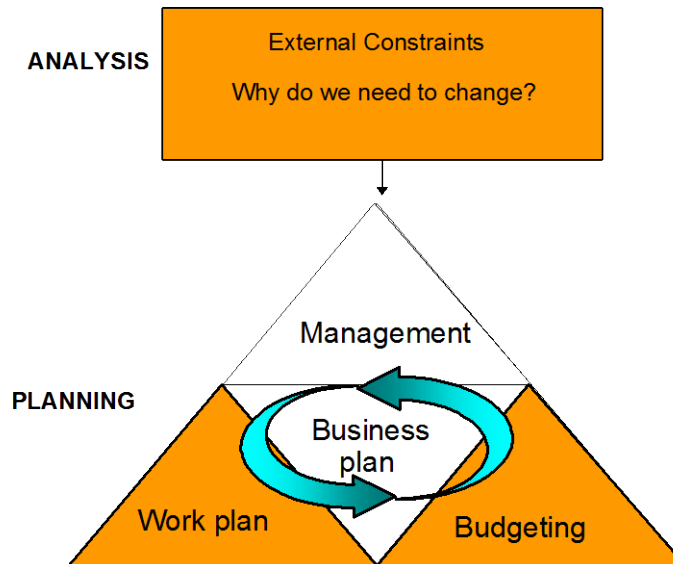
80% of an effective manager's time should be spent preparing a realistic plan for the enterprise to implement. 20% of an effective manager's time should be spent helping employees to solve problems.

Managing the business - Tools and skills

The model below shows the relationships between the main components of the business planning process. The actual business plan process informs and educates employees about why and what changes need to take place in the utility.

Managers use the business plan document to monitor whether people are following their work plan and how financial resources are used when reviewing budgets and actual expenditures.

Monthly reports are a reasonable time frame to review most activities.



There are different types of information used in this method of management.

Plans - what you realistically believe can be accomplished.

Targets - A point of superior performance if an extra effort is expended or circumstances of good fortune coincide. A point to aim for.

Forecasts - After a plan is produced, an update of how you believe performance will result having the benefit of more time, experience and information.

Actual results - What truly occurred.

Variation - The difference either positive or negative between what was planned to happen and what actually occurred.

Managing the business - Exercises

1. Write down what you would expect your chief person responsible for water production to say if you asked the question, "What are the three most important issues you feel the utility must concentrate its efforts on?"

Repeat the same exercise for the chief person responsible for managing the pipe network.

Are they very different. If so, are the people in your utility working to achieve common objectives.

2. In your own words, write down what management by exception means to you.

3. Which of the following tools do you use today? please check 4
plans targets forecasts actual results variations

7.2 Revision of the business plan - Concepts and principles

Keeping the plan alive

The framework for business planning requires the plans to be updated as part of a regular cycle.

Preparing a business plan is not a once-off exercise. The framework for business planning (introduced earlier in this document) requires the plans to be updated as part of a regular cycle. The timing of updating can depend upon a variety of factors some of which are shown in the following table.

Also shown is an indication of how quickly the plan needs to be updated to account of the changing business pressures. Updating need not result in completely rewriting the original plan, but rewriting only those sections directly affected and the revised information taken forward into the relevant sections.

Table 5 Typical reasons for updating the business plan

Change in business planning	Areas affected	Timescale for updating (indicative only)
introduction of new borehole and treatment standards in 2 years time	- treatment processes - capital investment - financial situation	within 6 months
general increase in inflation	- costs	within 12 months - as part of the next scheduled tariff review
large and immediate increase in local development.	- forecast demand - willingness to pay for connections - affordability	within 1 month for water demand figures, willingness to pay survey and as part of the next scheduled tariff review for affordability
election of new Mayor	- charging and tariffs	consult with municipality about changes (if any)
successful award of finance for new wastewater treatment plant	- financial situation	as soon as possible

In many cases the changes will not be as clearly defined as they are in the above examples. It is more likely that there will, for example, be a degree of uncertainty about the policy changes arising from the election of a new Mayor, and how they might impact on the utility. In such circumstances the recommended action would always be to establish contact with the Mayor's office and to discuss likely changes. Communicating in this way will help to resolve uncertainty at the earliest possible opportunity and allow the utility to manage its business accordingly.

A business plan is normally composed of detailed information for a short term such as 1-3 years and a longer term projection into the 5th, 10th or even 20th year depending on appropriateness.

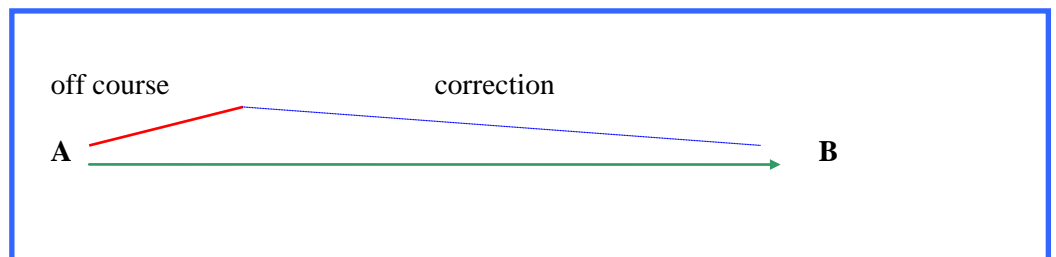
There are certain situations where conditions are changing rapidly or there is little accurate information to work with which suggest using a short period for a business plan. For example;

- new businesses
- markets with hyper inflation
- first business plan
- volatile market conditions
- new markets

Other situations only reveal meaningful conclusions when planned from 5 to 20 years. Examples of these situations are;

- capital intensive industries with assets the last 10 to 50 years
- utility infrastructure which depreciates over many years
- mature businesses
- markets with constant and low inflation
- stable market conditions
- cyclical markets with predictable timing

The concept of business planning is to chart course to follow to reach a destination. While on the path to this destination, situations may occur to force you off this course. If there is a clear destination, corrections can be made to bring you back on course.



The idea is not to change your destination until you have time to consider the consequences over a longer period.

Conclusion

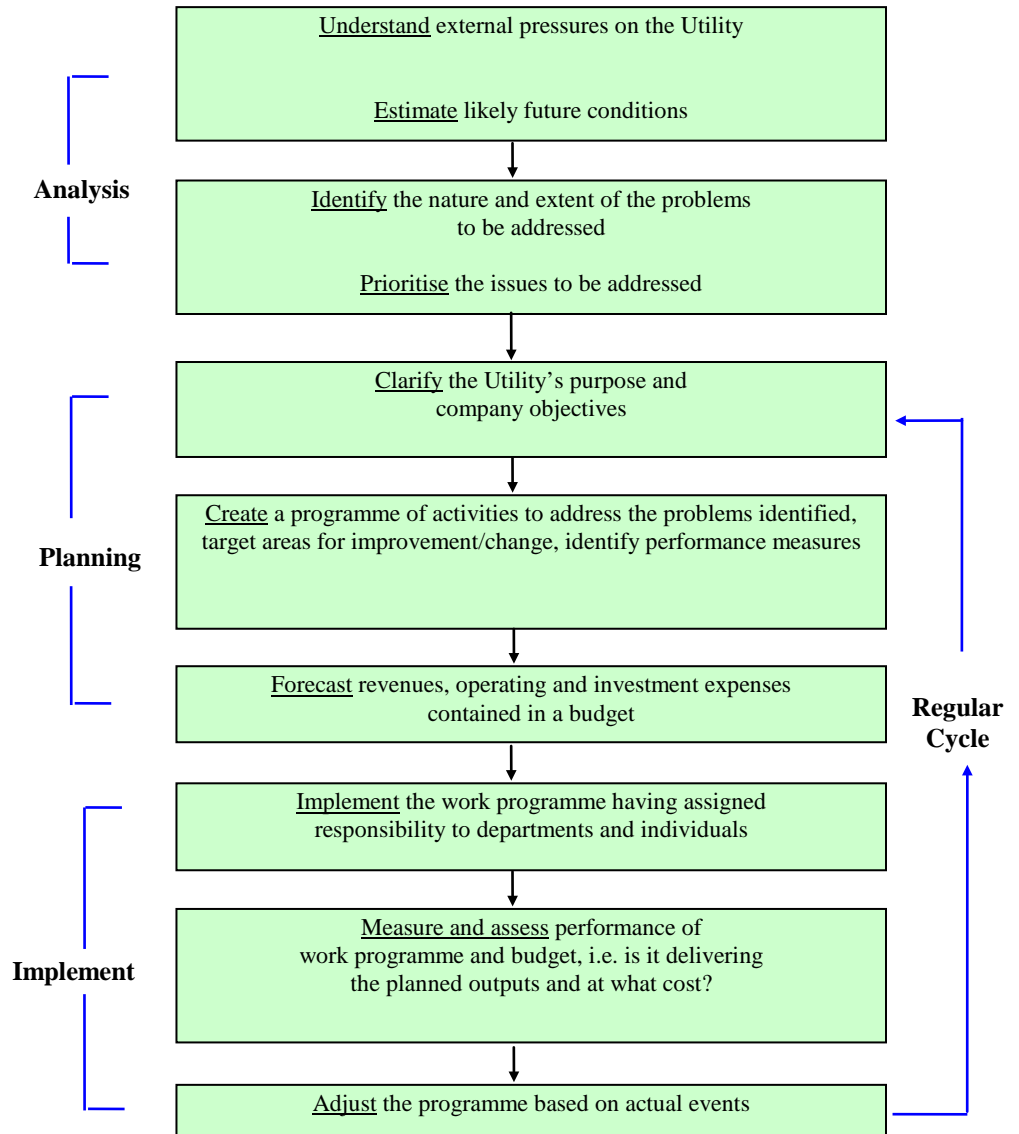
Keep your plan for approximately one year so that you have time to bring matters under control. You may forecast deviations in results, but always keep the plan as a benchmark to compare with.

Revision of the business plan - Tools and skills

The framework for the management process shown below illustrates how the business plan is reviewed on an annual basis.

Analysis is done in the beginning to understand your business, but then planning and implementation becomes a cyclical annual activity. Results for the year influence the plan for next year.

Framework for the Management Process



Revision of the business plan - Exercises

1. What do you think is an appropriate time frame to plan your business?

please check 4

6 months 1 year 3 years 5 years 10 years 20 years

2. How often do you plan to update your business plan?

please check 4

monthly 6 months 1 year 3 years 5 years 10 years

Managing the business and revision of the business plan - Key Learning Points

- Business plans need to be updated as part of a regular cycle or as required by changing business pressures.
- Persons will put trust in the business plan as valid information if they see that it has become a reference tool by which the utility determines whether it is applying its efforts to achieving what it set out to accomplish.
- MANAGEMENT BY EXCEPTION - Only manage those issues which do not follow the plan.
- Monthly reports are a reasonable time-frame to review most activities.
- You may forecast different results as often as you like, even monthly, but a business plan should only be revised once a year.