



NATIONAL WATER AND SEWERAGE CORPORATION

KAMPALA WATER

**BIDDING DOCUMENTS FOR
KW - BRANCH PERFORMANCE CONTRACTS
(APPENDIX IV)**

GUIDELINES FOR PREPARATION OF

BUSINESS PLANS

JULY 2006

INTRODUCTION

These guidelines are meant to facilitate prospective bidders for the position of Branch Manager (s) for the respective Branches in the competitive preparation of Business Plans as per the provisions of the planned Branch Performance Contracts (BPC).

The NWSC-Head Office has procured a two year (i.e. Aug'06 to June'08) Internally Delegated Area Management Contract (IDAMC) with the Partnership of Kampala Water and this is in line with the NWSC Corporate Plan 2006-2009.

In December, 2004, under the first Kampala Water Partnership a management decision was taken to transfer autonomy to the branches then referred to as zones in order to improve services to the customers and at the same time increase effectiveness in the Area operations. This was done under the framework of the zone performance contracts (ZPC). In this second Kampala Water Partnership management deems it fit to continue with this strategic dimension. As part of the Performance Contract framework (Clause 5.4), the branches (referred to as Sub-Operators) will have to prepare and submit business plans illustrating the Sub-Operators' requirements and strategies of how to achieve the performance targets for each respective branch.

A business Plan is an important tool in helping the Sub-Operator identify and keep focus on the most important things that will most effectively lead to the realization of the desired BPC results – improved performance. Going through the process of preparing the business plan will help ensure that every significant aspect of the business is considered and that no significant factors stand in the way of the BPC arrangement.

Below is an outline for a business plan. Use this model as a guide when preparing your business plan.

TAKE THE PARETO PRINCIPLE (“The 80/20 Rule”) AS A UNIVERSAL RULE DURING THE PREPARATION OF THE BUSINESS PLANS. => Although you may identify so many issues to address, so many activities to undertake and resultantly so many resource requirements; only a few of these issues and thus activities (usually 20%) will bring in about 80% of the desired results or outputs. Given the limitations of time, financial and human resources this rule will often prove useful in ensuring that all efforts and resources are optimized.

Elements of the business plan

The business plan should be divided into at least seven distinct sections:

1. Description of services
2. Performance targets
3. SWOT analysis
4. Performance improvement plan
5. Human resource plan
6. Financial management plan
7. Bidder's risk levels

The business plan should also include an executive summary, supporting documents and financial projections.

Business Plan outline

Below is the business plan outline to be followed by each bidder. Please note that in the explanatory notes that follow, phrases in italics outline what is expected but should not be included in the text of the business plan document that you are to prepare and subsequently submit.

1.0 Description of the current business situation

- 1.1 Description of the branch
- 1.2 Branch products and/or services
- 1.3 Performance review

2.0 Performance Targets

- 2.1 Key/critical goals and objectives
- 2.2 Performance targets

3.0 SWOT Analysis

4.0 Performance Improvement Plan

- 4.1 Improvement Strategies
- 4.2 Critical Resources to be provided by the Centre

5.0 Human Resource Plan

- 5.1 Current personnel needs
- 5.2 Staff hiring, promotion and discipline
 - 5.2.1 Hiring policy
 - 5.2.2. Staff promotions
 - 5.2.3 Disciplinary procedures
- 5.3 Staff remuneration
- 5.4 Training and Development plan
- 5.5 Staff management

6.0 Financial Management Plan

- 6.1 Monthly Operating Expenses
- 6.2 One-off Recurrent Expenditure Items
- 6.3 Capital Expenditure (CAPEX)
- 6.4 Cash flow requirements for Operational Expenditure (OPEX): Routine + One-off
- 6.5 Cash flow for Capital Expenditure (CAPEX)

7.0 Bidder's risk levels

- 7.1 Incentive Sharing (X%) & Sub-Operator's Share of the Operating Margin surplus
- 7.2 Percentage level of Parent Target Achievement below which part of the salary may be forfeited (Y%)
- 7.3 Maximum Percentage of salary to be forfeited if parent targets are not achieved (Z%)

1.0 DESCRIPTION OF THE CURRENT BUSINESS SITUATION

In this section provide a detailed description of the current business situation to enable your target audience have the proper context for the rest of the plan. The suggested sub-headings under this section include:

1.1 Description of the Branch

Here fully describe the branch by discussing each of the attributes below

- size of the branch (say in hectares or otherwise, a map may be included)
- total population; population served (coverage ratio)
- average family size, total number of families served
- water demand situation (e.g. l/c/d or m³/day), surplus or deficiency of water
- local economy
- market analysis showing the growth opportunities and related threats to growth e.g. new industries (e.g. new hotels coming up due to rise in tourism etc.)

1.2 Branch products and/or services

Here describe what services you offer

- e.g. piped water, sewerage services, water tankers, cesspool emptier tankers, etc;
- length and details of distribution network
- storage capacities

It may also help to attempt to describe the market for the major products/services

1.3 Performance review

Enter performance for six months Nov' 05 to April '06 and make brief comments, just after the Table, about the trends of the individual performance indicators worth noting.

Table 1.3 Six month Performance History

Indicator	Units	Nov '05	Dec '05	Jan '06	Feb '06	Mar '06	Apr '06	May '06	June '06
Water sold	m ³								
Billing	Ushs								
Collections	Ushs								
Total arrears	Ushs								
Percentage metering	%								
Percentage of meters read	%								
Percentage of reported pipe leaks/bursts repaired	%								
Average response time to leaks /bursts	Hrs								
New water connections	No.								
Active water connections	No.								
Suppressed/Inactive water connections	No.								
Percentage of customer complaints responded to or resolved	%								
Average response time to complaints of technical nature	Hrs								
Average response time to complaints of commercial nature	Hrs								

2.0 PERFORMANCE TARGETS

Here enter the performance targets set by the Operator – (Kampala Water – Centre). The bidder is free to propose targets for any of the indicators' higher than what the KW – Centre has set and this will be an advantage in the bid evaluation. The Bidder may only propose targets for Year 1.

2.1 Performance Targets

No.	Indicator	Unit	Base Performance	KW set Target Year 1	KW Set Provisional Target Yr 2	Bidder's Proposed Target Yr 1
1	Water sold (monthly avg)	m ³				
2	Billing (Monthly avg)	'000's UShs.				
3	New water connections (monthly avg)	No.				
4	Active water connections (at year end)	No.				
5	Inactive water connections (at year end)	No.				
6	Percentage metering	%				
7	Percentage of meters read	%				
8	Percentage of reported pipe leaks/bursts repaired	%				
9	Average response time to leaks/bursts	Hrs				
10	Inactive sewer connections	No.				
11	Percentage of customer complaints responded to or resolved	%				
12	Average response time to complaints of technical nature	Hrs				
13	Average response time to complaints of commercial nature	Hrs				
14	Total collections	Ushs				
15	Cash operating margin	Ushs				
16	Domestic arrears	Ushs				

2.2 Key/critical goals and objectives

Here the key/parent targets are separately highlighted together with the keys to success. While all the other targets are important, their attainment tends to roll up into attainment of these parent targets. Business can be quite chaotic and if priorities are not well defined much time can be wasted on urgent but not so important issues.

	Indicator	Unit	Bidder's Target for Yr 1	Keys to Success
1.	Water Sales	m ³		
2.	Billing	Ushs		
3.	Suppressed Accounts	No.		
4.	Collections	Ushs		
5.	Domestic Arrears	Ushs		

Keys to success are milestones that are crucial to achievement of a target. For example, given a target to increase billings by Shs. 100 million, one of the keys to success might be to increase connections by 2,000. Highlighting the keys to success helps you to focus on those sub-targets which have the greatest impact on the parent targets. This does not mean that the others are discarded – it is just a way of keeping all eyes on the ball.

3.0 SWOT Analysis

Here summarize your strengths and weaknesses as a branch as well as the opportunities and threats in view of the performance history. The SWOT Analysis should be carried out for the following Performance Areas:

1. Water Sales (m³)
2. Billing (Ushs)
3. New water connections
4. Suppressed accounts
5. Reducing physical losses – leaks and bursts
6. Customer care
7. Revenue collections
8. Domestic arrears
9. Cost optimization & control

For the SWOT Analysis use the following format

Indicator:

a) SWOT analysis

Strengths	Weaknesses
Opportunities	Threats

Strengths and weaknesses are internal to the Branch and often be greatly influenced internally by the Branch. For example, having experienced staff is a strength while being under-staffed is a weakness.

Opportunities and threats are external to the branch – they are out there and the branch can hardly influence them. For example, new hotels being built in the branch may be an opportunity but a declining local economy may be a threat.

Although strengths are sometimes not so distinct from opportunities just as weaknesses are hard to distinguish from threats the rule of thumb for distinguishing the two seems to be ability to directly influence the outcome by either, sustaining, increasing or diminishing it.

NB: The SWOT Analysis for each of the above nine performance areas should not exceed one page of A4 size.

4.0 Performance Improvement Plan

4.1 Improvement Strategies

The performance improvement strategies are the methodology that the Branch will use in pursuing the given targets. Each strategy results in certain resource requirements which must be clearly established at this point (time, cost and responsible persons). Each strategy must be matched with the corresponding resource requirements. Each strategy must address one or more targets.

Strategies must be linked to one or more issues arising from the SWOT Analysis.

The table-template below should be used to structure the Bidders thought process. Having gone through the SWOT Analysis, the Bidder should be in a position to identify the issues that need to be addressed in order to realize improvements. These issues logically lead into the formulation of strategies and activities to undertake, basis of which responsibilities are appropriately assigned and cost requirements and responsible persons established.

One of the challenges in business plan preparation, having identified the issues, is the harmonization of the corresponding strategies. One strategy may be addressing more than one issue and probably contributing to the achievement of more than one performance targets. Care must be taken to avoid duplication of resources.

For each performance category you should list not more than ten issues. And for each Issues listed you should formulate not more than four strategies. This meant to enhance the use of the 80/20 Principle. You are encouraged to be as innovative and cost conscious as possible. See the template to be used in the table on the next page.

Performance Category:

Snr	Issue (Issues arising from SWOT)	Strategy / Strategies	By Whom	By When (dd/mm/yy)	Cost (Ushs'000)
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					

4.2 Critical Resources to be provided by the KW-Centre

Summarize the critical resources that are linked to the issues from SWOT and the strategies from 4.1, that you will require from the Centre to enable target achievement. Specify the time-frames/deadlines where applicable.

5.0 THE HUMAN RESOURCE PLAN

The questions to be answered in this section of the plan could include:

- What are the current personnel needs?
- How many employees should we plan to hire?
- What remuneration will the staff be offered? What can be afforded at this point?
- What are the training needs?
- How are we going to build team play?
- How does the structure address the need to improve territorial management?

5.1 Current Personnel Needs

For purposes of the BPC, the Bidder will propose the employees it needs. The Operator will consider the proposal and after reaching a consensus position with the successful bidder, the agreed structure will be followed.

Here propose/draw the staff organogram; indicate the staff numbers. Ceilings for staff numbers are provided in the table below. Please note that a bidder has the flexibility of changing the number of staff within scales but the overall staffing costs must remain within the ceilings provided by the Kampala Water centre. In the organogram that you prepare the required total staff numbers must not exceed the Branch respective total shown in the Table below.

Staff ceilings set by Kampala Water centre

Branch No.	Branch Name	Sc1	Sc2	Sc3	Sc4	Sc5	Sc6	Sc7	Sc8	Total number
1	City centre	1		1	5	2	3	16	3	31
2	Kansanga		1	1	5	2	3	16	3	31
3	Najjanankumbi		1	1	5	2	3	16	3	31
4	Bwaise		1	1	6	2	3	19	3	35
5	Ntinda		1	2	5	2	3	20	3	36
6	Kitintale		1	2	4	3	3	17	3	33
8	Nateete		1	1	4	3	3	15	3	30
9	Nansana			1	1	3	1	6	1	13
10	Mukono			1	1	2	2	5	1	12

In designing the staff structure take care to ensure that you address the need for improving territorial management with in the Branch.

Based on your proposed organogram fill in the table below.

NWSC designation	Salary scale		Current staff No.	Preferred staff No.
	Current	Proposed		

5.2 Staff Hiring, promotion and discipline

In general, under the BPC the Sub-Operator will manage personnel in accordance with the Operator's Terms and Conditions of Service.

5.2.1 Hiring policy

Staff will be hired and seconded by the Operator upon the Sub-Operator's request. Make an excerpt of how the hiring policy is to be implemented in the Branch.

5.2.2 Staff promotions

Here state in detail how performance will be tracked and how staff performance will be appraised and how often; who will be responsible for staff appraisal. After which the Sub-Operator may make recommendations to the Operator for promotions.

5.2.3 Disciplinary procedures

Here summarise the disciplinary process and the modalities of referring cases to the Operator.

5.3 Incentive Sharing Plan

Here you should state the maximum monthly incentive that the Branch can earn, based on your targets, the Incentive Formula and your proposed X%.

For purposes of the BPC, the Bidder must make a plan for Incentive Sharing. Under the BPC a distinction is made between key staff of the Sub-Operator and the seconded staff.

State how the incentive fee will be shared with the staff. State what percentage of the incentive will be paid to seconded staff in aggregate and how that will then be shared amongst the seconded staff. State also what the key Branch staff will take and how they will individually share it.

Once the remuneration plan is agreed it becomes a contractual term and it shall not be deviated from except by way of amending the business plan as provided for under the BPC.

5.4 The Training and Development Plan

Here state the training needs. A good training-needs assessment should link to a need arising out of the performance improvement plan or to new competencies that will promote achievement the desired improvements. The plan should show the training need, the beneficiary staff and the benefits/competencies to be gained. Based on the agreed training needs assessment, the Operator will draw up and implement a training programme that addresses the Sub-Operator's training requirements.

5.5 Staff Management

This section spells out your strategies on improving staff management. Questions to answer may be: How will team play be encouraged? How will staff be encouraged to participate in the management of the organisation? How will staff views and contributions be sought, received and processed. How will staff be motivated?

6.0 THE FINANCIAL MANAGEMENT PLAN

Under the BPC arrangement, the Sub-Operator will get transfers of Branch Specific Operating Expenditure to the Branch Operations bank account meeting Branch Specific Operational requirements. The Sub-Operator will also receive an Incentive Fee subject to performance as measured against targets. The Monthly Branch Specific Operating Expenses should be derived based on the Table-Template below:

Table 6.1. Operating Expenditure Classification for the Branch Performance Contracts

Account No.	Account Description	Cost Allocation
Employee Related Costs*		
4101	Basic Salary	KW - Centre
4103	Work Bonus	KW - Centre
4105	Shift Allowance	KW - Centre
4107	Attendance/Performance Bonus	KW - Centre
4108	Car & Cycle Allowance	KW - Centre
4109	Housing Allowance-Employees	KW - Centre
4112	SSF	KW - Centre
4113	Health/Medical Expenses	KW - Centre
4114	Leave Transport	KW - Centre
4115	Funeral Expenses	KW - Centre
4117	Gratuities	KW - Centre
4119	Lunch & Transport Allowance	KW - Centre
4122	Responsibility Allowance	KW - Centre
4124	Water Allowance	KW - Centre
4125	Telephone Allowance	KW - Centre
4126	Electricity Allowance	KW - Centre
Premises		
4201	Repair and Maintenance (premises)	Branch Specific
4202	Fixtures & Fittings	Branch Specific
4203	Water	Branch Specific
4204	Electricity	Branch Specific
4205	Telephone	Branch Specific
4206	Cleaning Materials	Branch Specific
4207	Property Insurance	KW - Centre
4208	Ground Rent & Rates	KW - Centre
4209	Office Rent	KW - Centre
Static Plant & Pipe Networks		
4301	Fuel & Lubricants (static)	Branch Specific
4302	Media (sand)	KW - Centre
4303	Repairs & Maintenance (static)	KW - Centre
4304	Electricity	KW - Centre
4305	Insurance	KW - Centre
4308	Network Maintenance	KW-Centre
Transport & Mobile Plant		
4401	Fuel & Lubricants (mobile)	Branch Specific
4402	Motor Vehicle Insurance	KW - Centre
4403	Repairs & Maintenance (mobile)	Branch Specific
4405	Licences, Road Toll & Taxes	KW - Centre

Account No.	Account Description	Cost Allocation
Supplies & Services		
4501	Chemicals	KW - Centre
4502	Tools & Light Plant	Branch Specific
4503	Repairs to Equipment	Branch Specific
4504	Uniforms & Protective Clothing	KW - Centre
4506	Printing, Stationery & Publications	Branch Specific
4507	Fax & Courier Services	Branch Specific
4508	Office Supplies	Branch Specific
Administrative Expenses		
4602	Meeting expenses	Branch Specific
4603	Travelling expenses (local)	Branch Specific
4604	Entertainment	Branch Specific
4605	Publicity	KW - Centre
4615	Subsistence -Lunch/Transport	Branch Specific
4618	Security Guard Expenses	KW - Centre
Financing Costs		
4714	Bank charges	KW - Centre

6.1 Average Monthly Operating Expenses

Here the Sub-Operator will state the average Branch Specific Operating Expenses. Please See Appendix VI – KW OPEX and CAPEX – Branch Specific for the Ceiling pertaining to any of the Branches. You should state the average monthly Branch specific OPEX under the votes in the Table 6.1 above. You are encouraged to give explanatory notes on the build up of the costs. Your total proposed average monthly Branch Specific OPEX should not exceed the respective Branch amounts as shown in Appendix VI.

:

Cost Element	Amount in Ushs
Premises	
Repair and Maintenance (premises)	
Fixtures & Fittings	
Water	
Electricity	
Telephone	
Cleaning Materials	
Static Plant & Pipe Networks	
Fuel & Lubricants (static)	
Transport & Mobile Plant	
Fuel & Lubricants (mobile)	

Cost Element	Amount in Ushs
Repairs & Maintenance (mobile)	
Supplies and Services	
Tools & Light Plant	
Repairs to Equipment	
Printing, Stationery & Publications	
Fax & Courier Services	
Office Supplies	
Administrative Expenses	
Meeting expenses	
Travelling expenses (local)	
Entertainment	
Subsistence -Lunch/Transport	

6.2 One-off Recurrent Expenditure Items

Here you should state/summarize the One-off Recurrent Expenditure Items that are a result of the strategies you formulated in Chapter Four and indicate the related costs and the performance objective pertaining to each of the One-Offs.

Item	Amount for Yr1	Amount for Yr2	Performance Objective
TOTALS	

6.3 Capital Expenditure (CAPEX)

Here you should state the capital expenditure items arising from the strategies formulated in Chapter Four. Your proposed total Capex expenditure should not exceed the amount provided for the respective Branch as laid out in Appendix VI.

Capital Expenditure Item	Amount for Yr1	Amount for Yr2	Performance Objective
.....			
.....			
.....			
TOTALS			

6.4 Cash Flow requirements for Operational Expenditure (OPEX): Routine + One-off

Here summarize the Quarterly OPEX cash flow requirements. You are encouraged to give explanatory notes for the cash flow pattern proposed.

Cost Component	Qtr1 July '06 - Sept '06	Qtr 2 Oct '06 - Dec '06	Qtr 3 Jan '07 - Mar '07	Qtr 4 April '07 - June '07
Routine Branch Specific Opex - Quarterly (Ushs'000)				
One-Off Recurrent Expenditure - Quarterly needs (Ushs'000)				
TOTAL QUARTERLY OPEX REQUIREMENTS				

6.5 Cash Flow for Capital Expenditure

Here summarize the Quarterly CAPEX cash flow requirements. You are encouraged to give explanatory notes for the cash flow pattern proposed.

	Qtr1 July '06 - Sept '06	Qtr 2 Oct '06 - Dec '06	Qtr 3 Jan '07 - Mar '07	Qtr 4 April '07 - June '07
TOTAL QUARTERLY CAPEX REQUIREMENTS				

Once the projections are agreed with the Office, they shall form the contractual basis for the Incentive Fee payments and business plan facilitation under the BPC. They should thus be approached with utmost diligence.

7.0 Bidder's Risk Levels

7.1 Incentive Sharing (X%)

The Incentive Fee (IF) payable to the Sub-Operator for a given month shall be computed on the following basis:

$$IF = X\% * [COM_a - COM_m] * [0.4WS_{pa} + 0.1B_{pa} + 0.2SA_{pa} + 0.3DA_{pa}]$$

The formula is applicable only if: $COM_A > COM_M$

in which,

- IF** = The Incentive Fee payable to the Sub-Operator for a given month
- X%** = The agreed percentage of the improvement in Cash Operating Margin (COM) to be retained by the Sub-Operator as an incentive to improve the margin.
- COM_M** = Minimum **Cash Operating Margin** and is to be computed as the difference between the Minimum monthly revenue collections standard and the agreed/approved branch specific monthly operating expenses.
- COM_A** = The actual **Cash Operating Margin** and is to be computed as the difference between the actual monthly revenue collections and the actual branch specific monthly operating expenses for a given month.
- The agreed/approved Branch specific monthly operating expenses (B-OPEX) are classified as highlighted in Table 5.1.
- WS_{pa}** = Percentage incremental achievement in the improvement of **volume of water sold (WS)** and this shall be used as a surrogate indicator for steps towards reducing **Non-Revenue water**.
- B_{pa}** = Percentage incremental achievement in the improvement of **Billing (improvement in Revenue)**.
- SA_{pa}** = Percentage incremental achievement in the reduction of **Suppressed Accounts**
- DA_{pa}** = Percentage incremental achievement in the reduction of **Domestic Arrears**

X% is the share to be earned by the Sub-Operator out of the excess of the achieved operating margin over the minimum operating margin. X% shall be proposed by the Sub-Operator as set out below.

Sub-Operator's Share of the Operating Margin Surplus

Here the Sub-Operator needs to propose a percentage share of the surplus COM that it proposes to earn as an incentive fee. As a first step, the Sub-Operator should make a projection of the cash operating margin for the 12 months. The costs will have already been projected under 6.1, the task here is to make a projection of billings and collections.

If necessary, attach and refer to a table in the appendix showing details of the actual billings and collections for the 12 months projections.

In the main body, here, only show a quarterly summary projection as follows:

Element	Qtr1 July '06 - Sept '06	Qtr 2 Oct '06 - Dec '06	Qtr 3 Jan '07 - Mar '07	Qtr 4 April '07 - June '07
Billing				
Collections				
Branch Specific Operating Costs				
COM _M				
COM _A Target				

Based on the maximum projected surplus [COM_A – COM_M], the Sub-Operator must then propose its share **X%**.

Once the **X%** is agreed with the Operator, it shall form the contractual basis for the Incentive Fee payments under the BPC. Its determination should thus be approached with utmost diligence.

X% is the maximum incentive a Sub-Operator can earn assuming perfect scores on all the elements. The actual incentive earned will depend on the Sub-Operator's performance on the other variables in the formula.

7.2 Percentage level of Parent Target Achievement below which part of the salary may be forfeited (Y%)

Here state the level of risk taking for Y% of the parent targets you are committing yourself to, as explained further below:

I undertake that failure to achieve the set targets by the percentages stated below shall tantamount to forfeiting of the proportion of my monthly pay in accordance with Section 7.2a.

#	Indicator	Performance level (%) relative to targets set in Chapter 2 below which penalties shall be invoked
1.	Water Sold
2.	Billing
3.	Suppressed Accounts
4.	Domestic Arrears

7.2a Computation of Amount of Salary to be Forfeited

$$\text{Penalty} = \text{Agreed Total Pay to be forfeited} \times \left[\frac{\text{Total Weights for Indicators failed}}{\text{Total Weights for Parent Indicators}} \right]$$

- Note:** (i) The weights of the indicators according to the Areas are indicated in Section 7.1.
(ii) The failure levels stipulated in Section 7.2 shall apply in this case on a pass/fail basis.
(ii) Agreed total pay to be forfeited shall be that derived from the Z% - Value in 7.3

7.3 Percentage of salary to be forfeited if Y% of parent targets is not achieved i.e. (Z%)

Level of commitment towards target achievement (your forfeiture level shall not be less than 45% in case of Branches 1, 2, 3, 4, 5, 6, 8; and not less than 25% in case of Nansana and Mukono Sub-Branches.

Current gross monthly pay/salary: Ushs

Ishall forfeit % (Z-value) of my gross monthly pay if I fail to achieve the performance level specified stipulated in Chapter Two based on the Y% values in 7.2).