



NATIONAL WATER AND SEWERAGE CORPORATION

KAMPALA WATER

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

**GUIDELINES FOR PREPARATION OF
EXPRESSIONS OF INTEREST**

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 Expressions of Interest (EOI) 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 procurement of the BPCs bidders are required to prepare and submit EOI among other things. The EOIs are to include Bidder's Performance Targets, SWOT Analysis, "Qualitative" Strategies as well as the risk levels.

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

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 and so many activities/strategies to undertake; only a few of these issues and 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 EOI

The EOI should be divided into at least Three distinct sections:

1. Performance targets
2. SWOT analysis and Strategies
3. Bidder's risk levels

EOI outline

Below is the EOI 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 EOI document that you are to prepare and subsequently submit.

1.0 Performance Targets

- 1.1 Key/critical goals and objectives
- 1.2 Performance targets

2.0 SWOT Analysis & Strategies

- 1.1 SWOT Analysis
- 1.2 Improvement Strategies

3.0 Routine Opex

- 3.1 Average Monthly Branch Specific Routine OPEX

4.0 Bidder's risk levels

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

1.0 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.

1.1 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				

1.2 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.

2.0 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*

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.

After the SWOT Analysis for each Performance Area, Critical Issues should be identified and corresponding Strategies formulated. As far as the EOI is concerned strategies are to be formulated only up to a qualitative level.

For the SWOT Analysis and the Strategies for each performance area, use the following format

NB: *The SWOT Analysis together with the issues and corresponding strategies for each of the above nine performance areas should not exceed one page of A4 size.*

Performance Area:

a) SWOT analysis

Strengths	Weaknesses
Opportunities	Threats

b) Strategies

Issue	Strategies

3.0 ROUTINE OPEX

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 3.1. Operating Expenditure Classification for the Branch Performance Contracts

<i>Account No.</i>	<i>Account Description</i>	<i>Cost Allocation</i>
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

<i>Account No.</i>	<i>Account Description</i>	<i>Cost Allocation</i>
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

3.1 Average Monthly Operating Expenses

Here you should 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 3.1 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.

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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)	
Repairs & Maintenance (mobile)	

Cost Element	Amount in Ushs
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	

4.0 Bidder's Risk Levels

4.1 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.

4.2 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

4.2a 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 4.1.
 - (ii) The failure levels stipulated in Section 4.2 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 4.3

4.3 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).