



WATER SERVICES REGULATORY BOARD

Business Planning Guidelines

*for
Water Services Boards
and
Water Service Providers*

2007

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BUSINESS and INVESTMENT PLANNING GUIDELINES

1. INTRODUCTION

The Government of Kenya has adopted a reform policy in the water sector, which resulted in the Water Act 2002. The Water Sector Reform aims at improving provision of Water and Sanitation Services in a cost effective, efficient, equitable and sustainable manner. The main focus is to provide affordable water and sanitation services to the poor and improve service level gradually.

To achieve this purpose, new institutions were formed and roles for service provision, policy making and regulation were separated. The Water Services Boards (WSBs) are responsible for the efficient and economical provision of Water and Sanitation Services and own and develop assets within their area of jurisdiction.

Water Service Providers (WSPs), agents of the WSBs, are in charge of operation and maintenance of the assets. Efficient and effective WSS service provision is only possible if management of assets and operation of the infrastructure is carried out according to minimum standards. This includes basic management instruments such as business and investment planning.

The provision of water supply and sanitation is a natural monopoly. To guarantee the fulfillment of the sector reform goals within the new institutional setup, the formation of a regulatory agent was required. The Water Services Regulatory Board (WSRB) was established in 2003 under section 46 of the Water Act 2002. The WSRB issued licenses to the WSBs and the Business plans are an integral part of the License requirements. Investment plans are an integral part of tariff adjustment procedures.

2. OBJECTIVES OF THE GUIDELINES

The key objectives of the guidelines are to oblige all WSB and WSP to establish and regularly update business and investment plans and to set minimum requirements for such undertakings in the water sector.

Business plans of the WSBs and WSPs will be used by the WSRB for the different regulatory instruments such as tariff adjustment negotiations and verification of activities the WSBs and the WSPs will have to carry out in order to achieve gradually the sector benchmarks.

3. OBJECTIVES OF BUSINESS PLANNING

Business Planning is a recognized essential tool for management and planning in private and public companies. It gives an overview of the actual situation of the company and its strength and weaknesses. It encourages the company to specify objectives and to define strategies and actions to achieve them. The Management is guided in its decisions by the **logical framework** of the Business plan. This helps to focus on efficiency gains and monitor own performance development.

The main objectives of Business Planning can be summarized as follows:

- **Situational analysis:** A Business Plan provides a comprehensive overview of an organization's mission; objectives, strategies and programs for a given period and enables a review of how these are linked to the sector policy. It provides an opportunity for a critical assessment of the organization as a whole and commits the employees to a program of way forward.
- **Regulatory compliance:** A Business Plan enables the Regulatory Board to approve the direction of the WSBs and monitor their performance.
- **Communication tool:** A Business Plan helps an organization to communicate its objectives, planned activities and ideas to its stakeholders.
- **Management tool:** A Business Plan is a planning and operational tool that enables the management to undertake its business effectively and efficiently. The Business Plan shall reflect a realistic view of the expectations and long-term objectives of an organization.
- **Financial proposal:** A Business Plan is a vehicle for fund raising. The financiers' use the organization's Business Plan when making investment decisions.

The minimum service levels and the sector benchmarks established by the WSRB shall be reflected in the Business plan. Tariff adjustment proposals shall be based on the objectives and targets set out in the Business plan.

4. TIMEFRAME

The Business Plan shall be prepared to cover a period of five years and must be updated annually. The business plan and the changes during the updating must reflect environmental factors that may have impacted on the business and take care of the progress achieved so far.

5. THE CONTENT OF A BUSINESS PLAN

The following guideline describes the minimum content requirements of the Business plan that Water Service Providers and Water Services Boards have to provide. It is not restrictive.

More explanations of the content can be found in the relevant literature or through the detailed business planning manual provided by the WSRB.

The Minimum content of a Business Plan is:

- Executive Summary
- General Company Description
- Organization and Management
- The Strategic Plan
- Marketing Strategy
- Financial Sustainability
- Investment Plans
- Non Core Business Activities
- Monitoring and Evaluation

It is also important to note that **efficiency improvement indicators** and **pro-poor strategies** shall be sufficiently reflected in the business plan.

5.1. Executive Summary

The executive summary shall outline the key objectives, the lines of strategies and the strategic action to be taken. Special emphasis shall also be given to the risks and possible actions to be taken to overcome such obstacles/

5.2. General Company Description

a. Company Profile

Provide a general description of the business and in particular:

- Mission, vision and purpose of the business
- Overview on the service area covered
- Important agreements, including the Service Provision Agreements (SPAs) entered into main strategic partner, in the case of WSBs, the Development Partners.

b. Core Business

Core business is the set of activities that are central to the existence of the organization, such as:

- Organizational competence and culture developed around the core business.
- Core competence is the basis upon which an organization achieves strategic advantages - the skills and know-how - that distinguishes it from competitors and provides value to customers.

c. Business Environment

Business environment has an impact on the business success. The business plan shall provide an overview of relevant developments within the sector including the links to the:

- The overall government policies
- The Water sector policies and national water service strategy
- other developments in the business environment that affect WSBs and WSPs

5.3. Organization and Management

a. Organization Structure

The success or failure of any business will largely depend on the Management Team and the support of the Board of Directors. This section shall therefore include the organizational structure; the profiles of the organization's Management Team and the Directors of the Board such as qualification, age sex, professional background and professional engagement other than in the WSB or WSP, possible conflicting engagements, etc. It shall also contain a detailed description of each division or department and its function. As overstaffing of WSP and WSB is common in the water sector and has a devastating effect on the organization the business plans shall include a short outline of staffing levels (broken down in different departments) and contain a comparison to the relevant sector benchmarks given by the WSRB.

b. Legal status and ownership information

This section deals with the legal structure of the business. The information on the ownership of the organization helps the third parties (customers; creditors, other outsiders etc.) know whom they are dealing with from a contractual point of view.

c. Board of Directors

Details of roles and responsibilities of the Directors and how they will contribute to the organization's success shall be given. Thereby, the business plan shall follow the recommendation of the Good Corporate Governance Guidelines issued by the regulator concerning the division of roles between management, Board of Directors and share holders.

5.4. The Strategic Plan

Strategic planning is a systematic attempt to look ahead, to set specific objectives and describe how to achieve them. The strategic planning process answers the questions: Where are we? Where do we want to go? How shall we get there? Strategic planning involves:

- Reviewing the existing situation;
- Looking ahead and setting goals, objectives, targets;
- Developing strategies and policies for achieving the desired objectives.

The strategic plan also includes medium term indicators to measure the achievement of the objectives over time. This shall help the Board of Directors to monitor their own performance and the performance of the management team.

a. The company objectives:

The company's objectives shall indicate the progress of how and when to achieve the Minimum Service Levels as detailed in the Service Provision Agreement. Objectives and strategies shall contain a clear statement on how to improve water and sanitation services for the poor. The company shall indicate its objectives for the next five years and the strategies that will ensure their achievement.

- Water coverage in the area of jurisdiction
- New water connections
- Pro-poor coverage
- Reduction of Unaccounted for Water (UFW)
- Sewerage connections
- Untreated affluent discharges
- Onsite sanitation
- Etc.

Objectives shall be precise and accompanied with measurable indicators. The different areas of management (technical, commercial, financial, human resource) must be addressed in the business plan and feed into the organization objectives.

b. Situational Analysis

Strategic Planning is a systematic attempt to chart the direction of the organization into the future. It answers to the questions: Where are we? Where do we want to be in the next five years? How shall we get there? What are the indicators that progress is being made along the strategic path?

The situational analysis includes the SWOT analysis. The SWOT analysis will outline the organization's current **Strengths; Weaknesses; Opportunities; and Threats.**

c. PEST Analysis

The Business environment analysis (PEST) looks into: **Political; Economic; Social' and Technological** factors and how each factor impacts on the performance of the organization. The organization shall outline in its Business Plan what impact the PEST analysis

factors will have on it and what strategies will be adopted to ensure that the organizational objectives will still be achieved.

d. Action Plans and Indicators

The organization shall translate the objectives into medium term strategic activities and derive from there the annual activity and work programs.

It shall explain how these programs will achieve the organizational set goals and express performance measurements methods that will be used for each target. For this, not only the objectives but also the activities shall be completed with indicators to allow measuring of progress within the monitoring system.

e. Performance Indicators

The performance indicators define the current level and the targeted level as a result of the planned actions. A distinction shall be made between efficiency improvements (reduced costs or higher revenues) and improvements of service and quality. Indicators shall be measurable.

f. Performance improvements:

In developing its Strategic Plan the company shall define its potential to improve its efficiency during the Business Plan period.

g. Improvements of water quality

In this section the organization shall set out its views on the scope for improvements in water quality, the evidence on which they are based and the estimated cost. A crucial step towards improving water quality is the establishment of an annual water testing program and the publication of the results. This should be included in the business plans.

h. Improvements of customer service

In this section the organization shall set out its views on the scope for customer service and the evidence on which they are based and the estimated cost. Thereby, the Minimum Service Level issued by the WSRB are the reference / benchmark to be achieved.

i. Improvements of services to low-income areas

The Company shall indicate how to improve and extend services to low-income and underserved areas, e.g. through water kiosks. Thereby, the providers and the WSBs shall refer to the service area as agreed with the WSRB. The WSP can decide to source services out to third parties but must recognize that it will in such cases remain entirely responsible for the service provision

to the WSB and the WSRB. Complaints by customers served through the third parties will have to be solved by the WSP.

j. Services

In this section the organization shall describe the kind of service being offered. Focus shall be made on the areas where the organization gives priority. Identify the problems in the target market for which the services provide a solution.

5.5. Marketing

a. Marketing Strategy

Marketing is the process of attracting customers. Therefore the organization has to define its marketing strategy. The organization has to place the customer and meeting the customer needs at the center of its Business Plan. The organization shall decide on what type of strategy it will adopt. For example, a horizontal or a vertical strategy can be adopted.

b. Marketing Mix

The Marketing Strategy will have at its center an in depth outline of a marketing mix.

A marketing mix is the process of understanding the nature of customer groups, their current practices, needs, the way they want their needs satisfied; the best way to communicate to them and their knowledge of the service provider. It is important to recognize that WSS service provision is satisfying basic needs and consequently, the poor have to be served and cannot be left out.

c. The "5Ps" of Marketing

The organization will then have to deal with the 5 Ps marketing: **Products, People, Promotion, Price and Place**. This includes adopting for instance for a block tariff as the pricing method. The Sanitation aspect may involve looking at the social and religious patterns of the people in certain areas. For example, in dry places the marketing strategy may be to build special latrines (product) with water basins making it easier to clean without tissue at a special tariff.

d. Revenue Collection

The marketing strategy will also address revenue collection. Strategies will have to be formulated which are specifically targeted at enhancing revenue collection through a review of the revenue collection efficiencies. This will also include the options of extending the revenue base.

5.6. Financial Sustainability

Financial sustainability is basic for the survival of an organization. Allocation and management of resources help move the business toward the successful execution of its strategies. The organization shall conduct a full analysis of its financial situation as better resources and capabilities lead to superior performance.

The financials shall be developed after the organization has analyzed the market and set clear objectives to be able to allocate the resources efficiently.

a. Funding Requirements

In this section the organization shall:

- State the amount of funding it will need to sustain the operations
- State the current funding requirements; for this current period and in future periods.
- Explain how these funds will be utilized.
- Specify if the funds are for recurrent (operating) or capital (investment).

b. Financial statements

The following are the critical financial statements to include in the Business Plan:

- Historical Financial Data
 - The organization shall include its **income statements; balance sheets; and cash flow statements** for each year of business (2 years).
- Forecasted Financial Data:
 - This shall include the forecasted **income statements; balance sheets; capital expenditure budgets; and cash flow statements**.
 - These projections shall match the funding requests. Explain any assumptions made in the projections.
 - Include a short analysis of the financial ratios and trend analysis for all of the financial statements.

6. INVESTMENT PLANNING

6.1. Need for annual Investment Planning

With the elaboration of the business plan the WSBs and if relevant the WSPs are obliged to establish an investment plan. The investment plan is an outcome of the Business Plan. The investment plan has to be annually updated with the business plan and must have the same time horizon as the business plan. Business and investment plans are documents which have to accompany license applications and tariff adjustment proposals

forwarded by the WSBs and WSPs to the WSRB and therefore are crucial for planning for the WSB and WSP but also needed for the assessment carried out by the WSRB. Without receiving these documents the WSRB will not be able to fulfill the obligations under the Water Act.

The Plans shall, among others, provide for extension of services coverage, rehabilitation and expansion of existing infrastructure, development of new infrastructure and other assets **complete with forecasts on revenues, investments, performance levels and coverage. The Plans shall feed into the revised National Sector Investment Plan (SIP) of the MWI to represent the overall investment needs and projected performance of the water services sub-sector.**

Business and investment plans must be consistent. Without coherent planning and updating of plans investments will not contribute to implement the strategy of the WSB and the WSP. This will lead to wastages of precious fund which will penalize the consumers. A situation, the WSRB cannot accept. Only with continuous implementation of investments plans water supply and sanitation services can be maintained and extended to reach the desired service levels.

The WSRB expects the WSBs and where applicable the WSPs to update their investment plans annually.

6.2. Type of Investments

In most of the cases the existing water supply and sanitation facilities are seriously inadequate and dilapidated and therefore need immediate attention both in rehabilitation (including limited extensions to the underserved settlements of the urban poor) and new investments (major works).

- Rehabilitation work is needed to safeguard the supply level to the customers. It shall also include limited extension especially of low cost technology such as water kiosks to improve rapidly the situation of the underserved until an extended network with household connections can be financed.
- Major works are the part of medium and long term investment planning. The Plan shows how objectives, strategies and costs have been taken into account and why the proposed investment is worth being undertaken. Major works also include replacement of major installation.

Demand management obliges the WSBs to plan for an extension of supply facilities only if the water losses are reduced to an acceptable level at the same time. In addition, investment plan also have to cater for

replacement in case of emergencies like the breakdown of major equipment such as pumps. Therefore, investment plans must include stand by equipment.

6.3. Sustainability of Investments / Infrastructure

Investment plans have to document that the investment does not generate operation and maintenance cost which cannot be covered with revenues. This would lead to compromise the sustainability of the new investment and the services to the consumers, create a dependency on external sources for financing which is contrary to the sector policy of increasing self financing of service provision or force the consumers to support unacceptable tariff levels.

6.4. Minimum requirements for investment planning

In order to fulfill its obligation given by the Water Act the WSRB will have to closely monitor the planning and implementation of investment activities. Thereby, the WSRB will focus on the following main elements:

- How the WSBs and the WSPs intent to meet the growing demand first, by investments for demand management and second, by improving the existing infrastructure.
- What kind of investments the WSP is planning to improve its performance such as metering program in order to reduce UFW for instance.
- How the WSBs and the WSPs respond with extension of their infrastructure to the growing settlements within their service area.
- How the investment plan integrate reinvestments in order to ensure the viability of the existing infrastructure and the maintenance of the service level.
- How the WSBs and WSPs address the issue of the least cost solution in their investment planning.

The WSRB will use benchmarking and comparison of investments across the WSBs and the WSPs in order to ensure moving toward the best cost solutions.

Investment planning must include:

- Analysis of existing installations which is a description of the condition of the existing assets (derived from the asset inventory) including water production, transmission/distribution, sewer system and general investments such as billing systems, metering, etc. (type of source, seasonal reliability, length and size of pipes, pumping equipments, treatment and reservoirs, balk metering, stand posts/kiosk, house hold connections).
- Supply and sales forecasts commencing with an analysis of past trends and present situation and a compilation of data concerning

service coverage per service area, number of customer per tariff category and person served per connection, estimate of the daily consumption per type of customer, population growth. Thereafter forecast of increase in service coverage, measures for demand management / loss reduction (metering program etc.) and measures for increasing water production.

- Description of investments by indicating constrains and conflicts as well as investments options such as extensions through kiosk systems versus new transmission lines and household connections or reduction of UFW instead of enlargement of treatment facilities as a first step of rapid measures to increase coverage and supply in case of limited funds.
- The investment plan shall be presented in details separating each individual water supply and sewer system and the different type of investment (replacement, new extensions, major work, general investments, additional measures such as training of personnel, additional employment, new soft ware, etc.).
- Benefits of investments such as cost reduction increase in coverage, service hours, etc.
- Cost estimation of investments and separately, each of the alternative solutions. This shall be ranked according to priority and contain an indication of the method of calculation (e.g. unit price per quantity - KSH per km pipe). A brake down of cost according is required such as foreign exchange/KSH, engineering and physical costs, disbursement over time, base year of prices, inflation rates, additional cost for operation and maintenance.
- The proof of feasibility shall be documented with methods such as least-cost solution, benefit/cost analysis, internal rate of return assessment or long-run marginal cost calculation.
- **Demonstration that the investments are sustainable by documenting the accumulation of income to recover the investment costs. This will include the necessary replacement costs.**
- Financing options such as commercial credits, funds from development partners, etc.

6.5. Government Regulations

According to government regulations (Government Financial Regulations and Procedures) each WSB is required to indicate the total capital expenditure planned during the budget period in the context of MTEF.

The investment budget has to be broken down by project and by source of financing for all investment projects ;

The projects need to be ranked and linked to / with one or more targets in its Strategic Plan. The WSB needs to also demonstrate adequate

justification for undertaking the project based on discounted cash flows or on purely socio-economic impact or cost-benefit analysis.

More detail of the lay out of the investment plan is given by the SIP and Model such as

- Total amount required
- Sources of funding
- Funds from GoK
- Benefits of project and prioritization
- Use of funds

7. NON CORE BUSINESS ACTIVITIES

The Business Plan so far has been addressing the main core business of the organization, which is in the case of a WSB or WSP water supply and sanitation. But water companies may be involved in other business e.g. Borehole drilling and building dams.

The organization shall outline other business activities it is engaged in, giving reasons why the organization has undertaken these activities with details of expected benefits To make this clear, the following will also have to be documented:

- Strict separation from the core business in all areas of business management
- Separate accounts and accounting
- Benefits to the core business - water supply and sanitation service provision.

8. MONITORING AND EVALUATION

The business plans have to indicate how the organization will monitor the gradual achievements of the objectives and indicators lined out. Indicators shall not only measure progress of the organization but also of its impact (evaluation) on the ground.

For this, the WSB and the WSP need to put in place instruments such as performance contracts for its management on all levels and assessment tools. The outcome of the assessment shall be linked to incentive systems in order to motivate the personnel to constantly enhance performance.

Management will have to prove to their Boards annually progress compared to the goals lined out in the business and investment plans. Therefore, monitoring does not only cover operation but also projects carried out under the investment plans.