RESOURCE DOCUMENT: ANNEXURE A

Developing and implementing municipal water business turnaround strategies

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1 Context and purpose

Many of South Africa's municipal water businesses are in trouble. The National Treasury is concerned about this situation and is engaging with the National Department of Water and Sanitation (DWS), the Department of Cooperative Govenance, municipalities and other stakeholders with a view to finding solutions. More specifically, the National Treasury's Cities Support Programme (CSP) has been supporting several metropolitan municipalities, on request, to turnaround their water business. The CSP is using a theory of change[1] which recognises that municipalities have the constitutional responsibility to provide water and sanitation services and it is ultimately a political decision on the part of municipalities as to how these services are provided.

Recent analysis of key indicators in metropolitan municipalities' water and sanitation business depict a picture of under investment which has been protracted for a number of years. The Mid-year Budget Reviews (MYBR) for 2024 also highlighted that despite providing notable access to water and sanitation in the last 30 years, there has not been sufficient investment in the development of bulk infrastructure including Wastewater Treatment- and Water Treatement Works. Thus, it is recognised that part of turning around municipal water business will require significant investments. It is clear that municipalities alone will not be able to meet the investment needs to have significant impact, while failure to provide a solution to this glaring challenge will collapse the economy of both cities and the country. To mitigate this imminent threat, national government should work with municipalities to develop a long-term sustainable solution in addressing underinvestment. With the increasing pressure on the national fiscus, the a traditional approach of providing/creating a grant with relaxed conditions to fund the under-investment in water will not work.

As such there is a need for the National Treasury's to create a finance incentive which will, among other things, require cities to develop a turnaround strategy that sets out clear goals, with time-bound targets and includes a practical way to develop or secure the necessary capability to implement the strategy effectively.

This document has been developed as a resource document to support a turnaround in the water business. The intention is to further develop and improve this resource over time, based on experience gained.

2 A strategy to guide and effect change

Change is much more likely to be successful if it is guided by a clear strategy that includes the following components:

- A clear identification of the challenges to be addressed, together with an understanding of the underlying causes of these challenges.

  (*Knowing why change is needed*) (See Section 3)

- Clear prioritised goals related to key outcomes, with time-bound targets so that progress can be easily tracked.

  (*Knowing where we want to go, and by when*) (See Section 3)

[1] "Building water resilience in South Africa's cities" (National Treasury, 2022)

- Clear identification of solutions (*how the challenges will be addressed* and the strategy implemented), paying attention to organisational form (structure), processes and capability (particularly managerial and technical capability).

  (*Recognising that if you want to have different outcomes, things need to be done differently.*) (See Sections 4 to 9)

- A process that builds a stable and strong coalition in support of the necessary changes, understanding that any significant change will also meet with resistance.

  (*Who will do it, and who will support and resist? This is particularly important in the context of unstable coalition governance at municipal level in South Africa*) (See Section 10)

- Draws on relevant experience and expertise to assist the process, both from South Africa and elsewhere.

  (Know where and how to get help. South Africa's challenges are not unique and international experience in the provision of well managed water services at municipal level is highly relevant, and capability is available to support within South Africa and beyond.) (See Section 11)

Guidelines and resources related to each of these aspects of a turnaround strategy are provided in the sections that follow and as referenced above.

3 Why change and what do you wish to achieve?

Implementing significant change in an organisation is both difficult and risky. There therefore needs to be a compelling case for change, although this is not the only criterion for initiating successful change. Key stakeholders need to perceive, and be convinced of, the necessity for change. In particular, the political leadership within a municipality need to be convinced of this need and demonstrate this through committing to ensuring implementation of a Council-approved strategy to address the challenges effectively.

National Treasury has made a compelling case for change in the management of municipal water and sanitation businesses in cities. See "Building water resilience in South Africa's cities" (National Treasury, 2022). The DWS has also made a strong case for change in its Water Services Improvement Programme (2022).

The case for change

National Treasury is of the view that a compelling case for change has been made for the need for significant changes in the way water and sanitation is managed in municipalities. In summary:

- **Financial performance is very poor**, and many cities are not able to collect the cash necessary to manage the business effectively. A turnaround in the financial performance of the business is critical to improve services.
- **Cities' water and sanitation services are not run as a business**. This has a direct impact on all aspects of the performance of the service. There is no single point of accountability for performance. Corporate finance blames the technical water and sanitation department for poor performance. The technical department blames the corporate and finance functions (IT, fleet, metering, billing, debt management) for poor performance. The reasons why water and sanitation should be run as a business are set out in Section 7.

- **Most cities do not have the necessary technical capability to manage and run an effective water and sanitation business**. Some municipalities do not have a single registered professional engineer, technologist or scientist in the employ of the water and sanitation function at a senior level.
- **The water operation is highly inefficient** with high physical water losses and high non-revenue water, well accepted benchmarks for acceptable performance. This results in a massive wastage of scarce resources.
- **Procurement of essential support services is compromised**. Cities appear unable to procure the services of competent service providers in a timely way to support it in the performance of its functions.
- **Cities suffer for a lack of legitimacy and credibility** and are unable to win the trust of customers.
- **Cities have been under-investing in the maintenance and rehabilitation of infrastructure over many years,** resulting in a compromised service with an ongoing decline in performance and service outcomes.

4 Managing a water and sanitation business

4.1 Sound management as a foundation of resilience

To provide reliable and safe water and sanitation services, these services need to be resilient to shocks, including climate-related shocks (such as droughts and floods) and anticipated changes arising from climate change. Systems that are poorly managed and financially weak are inherently fragile, and the impacts of shocks on these systems are much more severe.

The focus of this document is on creating soundly managed water businesses because these business will be much more resilient to the inevitable shocks that will arise through climate-related and other events. Soundly managed water businesses plan for, and anticipate shocks, reducing their impact. These businesses have the management capability and the resources to effectively manage shocks as and when they arise.

4.2 Essential characteristics of soundly-managed water businesses

International experience shows that soundly-managed water businesses share the following five common characteristics:[2]

- **Customer-oriented and customer-responsive**, recognising that the purpose of the water services business is to serve customers, that customers experience and perceptions matter, and that happy customers are paying customers.
- **Sound finances**, as a result of sound **financial management,** accompanied by financial **transparency** and **appropriate tariffs** with good revenue management (**metering**, **billing** and **cash collection, debt management**), low levels of non-revenue water and good controls on expenditure, with cost-effective procurement.

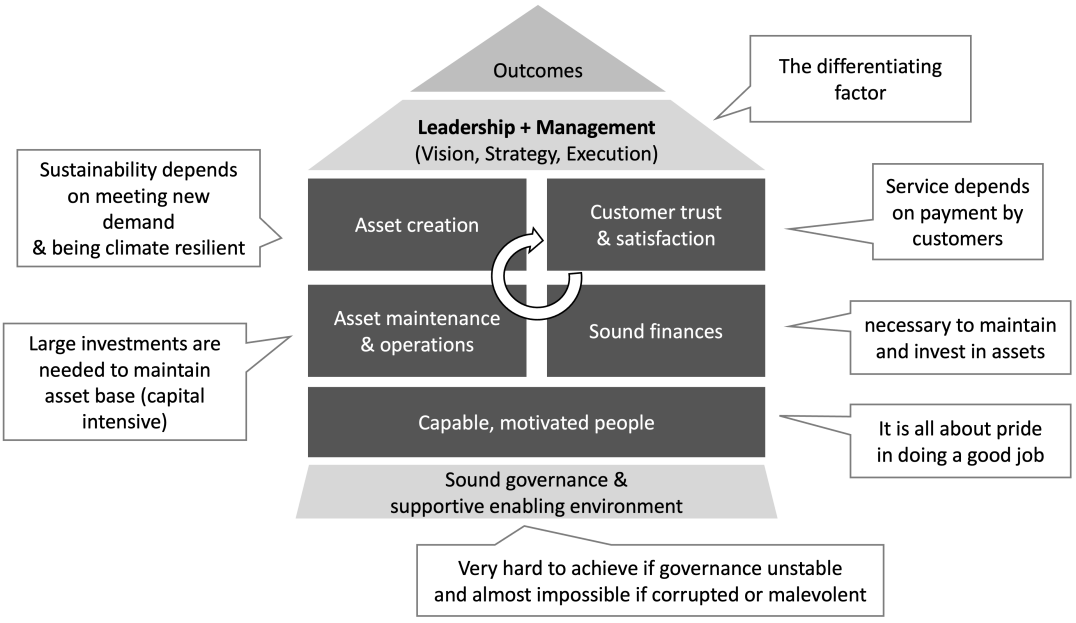
[2] See, for example, Baietti A. Kingdom, W. & Van Ginneken M. 2006. Characteristics of well performing Public Water Utilities: World Bank Water Supply and Sanitation working Note No. 9.

- **Asset maintenance and operations** to maintain the existing asset base,
- **Asset creation to** meet new demand, respond to a changing business landscape and be climate resilient,
- **Capable and professionalised staff** and effective support systems, with a suitable degree of managerial autonomy, incentivised to perform and with accountability for performance.

Effective utility operations also have two further important requirements (i.e. seven in all):

- **Sound governance** and supportive enabling environment, with a clear distinction and separation of oversight and management/operational roles, and with clear processes and mechanisms that promote and protect probity, particularly with respect to finances, procurement and appointments.[3]
- **Leadership and management** with the vision, strategy and execution capacity required to achieve the outcomes required.

Figure 1: 7-box framework for successful trading services



4.3 A "whole of business" approach

Providing effective water services is not just a technical function. All of the functions necessary to manage an effective water and sanitation service need to be addressed; this includes customer services (communications, metering etc.), financial performance (including billing, credit control etc), human resources (ensuring staff capability and performance), support services (procurement, contract management, IT, fleet management etc.) as well as the more 'technical' aspects of the business (planning, asset creation, asset management, operations and maintenance etc.).

[3] Probity *definition*. Having strong moral principles; honesty and decency. (Oxford English Dictionary)

4.4 Performance characteristics of well-managed water businesses

While performance depends to some extent on the context, it is possible to assess performance against relevant benchmarks. The decline in performance over the past decade shows that there is a need for a significant improvement in the performance of the water business in South African metros (Table 1).

Table 1: 10 year metro water performance

2012	Metro water performance	2022
10	Tariff (R per m^3)	25
92 %	Cash Collection rate	80 %
32%	Non-revenue water	43 %
63%	Utility efficiency	46 %
1,393	Volume sold (million m^3)	1,309
13.9	Revenue from sale of water (R billion)	32.7
3.0	Cost of inefficiency	16.0

5 Setting goals (what do you want to achieve, and by when?)

Based on National Treasury's engagement over the last two years with water challenges, effective and responsive water strategy for cities should address the following key areas: (*with associated goals, indicative and illustrative*)

- The **financial performance and financial viability** of the water and sanitation service. This includes metering, billing performance, cash collection and credit control, as well as budgeting, budget execution and tariffs, among other things, for example:
    - *Metering target (100% metering)*
    - *Meter reading target (98% meters read each month)*
    - *Cash collection target (95%)*
    - *Published annual financial statements for the water business*

- **Customer service, responsiveness and communications**, understanding that the service exists to serve its customers, for example:
    - *Fully established customer call center*
    - *80% of calls answered within 60 seconds*
    - *Standards set for resolution for different types of queries*

- The '**technical' performance** of the water and sanitation business including non-revenue water, leakage management, pressure management, network management (water and sewer), asset maintenance and development (all water and sanitation assets), ensuring effective and efficient operations, maintenance and asset rehabilitation, replacement and expansion, for example:
    - *Non-revenue water 25%*
    - *Investment in network replacement (1 to 2% of network, annually)*
    - *Number of active pressure management zones*

- The **organisational structure** within which the service is provided. The management structure for the service needs to have the ability to manage the core functions of the business – customer services, finances, human resources, procurement, asset management and operations, and this management needs a degree of managerial autonomy with accountability for performance, and to operate within a context of sound governance.
    - *New organisational structure agreed*
- The **management, technical and staffing capability** necessary to manage and run the service effectively.
    - *Management capability recruited or contracted*
    - *Professional engineering and technical capability, recruited or contracted.*

In addition to the above, the following could be addressed as part of this strategy or in a companion strategy:

- Implementing measures to **reduce water demand** (over and above these included in the above scope).
- The necessary processes (that are both effective and accountable) for investigating, evaluating, planning, deciding, implementing and monitoring least-cost **measures to secure (and expand as necessary) water supply in the medium and long-term**, understanding that these will involve taking a wider system (or "basin") view and collaboration with other key stakeholders such as the DWS and agriculture. The strategy should focus on how the city will engage with, support, improve and strengthen existing processes, and how decisions will be taken.
- **Building resilience in the water system, taking a risk-based and scenario planning approach** in the context of climate change, linked to the above, but also including promotion of reuse, development of diverse sources and ensuring the ability to move sufficient water reliably across each of the cities.

6 Governance

6.1 Why sound governance is important

Weak governance lies at the heart of poor performance. Elected politicians carry ultimate responsibility for the performance of the municipal administration, because they have oversight responsibility for, and significant influence on, the governance and performance of the municipal administration, including the provision of water and sanitation by the administration. The variations in performance within municipalities over time, and between municipalities operating in similar material conditions, offers sufficient evidence of the impact of political governance on municipal performance.

Box 1: Poor governance lies at the root of poor performance

"Some 64 municipalities are considered to be dysfunctional. This dysfunction is rooted in poor governance, weak institutional capacity, poor financial management, corruption and political instability. By June last year, some 26 municipalities had been placed under administration. This number has now risen to 31 municipalities under administration. We continue to hear about municipalities under threat of administration. Many residents have lost faith in the ability of local government to meet their needs. So too have many investors."

Municipalities have been subject to poor governance (see Box 1). This is also evident in the annual reports by the Auditor-General and in declining financial performance and service outcomes in many municipalities.[4] The poor and declining performance of water services, specifically, in South Africa has also been reported by National Treasury.[5]

Without sound governance there can be little confidence that scarce resources (from grants, commercial finance and payments by users) will be well used.

6.2 Options to improve governance

There are two main options for improving governance that have a direct bearing on the provision of water and sanitation services by (or on behalf of) municipalities:

- Improving governance within a municipality
- Creating a structure for the provision of water services that lends itself to better governance and which has rules and norms which protect governance from poor or corrupt governance practices.

This is not an either/or choice. Each is discussed in turn.

6.3 Improving governance within a municipality

The core ingredients of sound governance for the effective management and good performance of a municipal water service are set out in Table 2 below.

Table 2: Core ingredients of sound governance

Area	Core ingredients of sound governance
Leadership	• Public commitment by political leadership: e.g. a Mayor's Water Resilience Pledge • Dashboard on performance published and regularly updated (see strategy & business plan below) • Regular engagement and communications on progress
Strategy & plans	• Council-approved Water Turnaround Strategy with priorities, targets & milestones (ten-year horizon, updated periodically) • Approved business plan in place covering all aspects of the water business, with agreed KPI's (three-year horizon, updated annually) • Council-approved & funded investment plan aligned to strategy & business plan, (updated annually)
Revenue & tariffs	• Council-approved tariff generates sufficient revenue (with available grants) to meet efficient operating costs and necessary investment costs. • Processes and methods for setting tariffs well-defined and transparent, and based on accepted economic regulation methodologies for public infrastructure
Governance & oversight	• Oversight committee ("Board") suitably skilled, experienced and trained • Separate reporting on financial performance for water & sanitation business (with full set of audited financial statements comprising income statement, balance sheet and cash flow)

[4] See, for example, "Consolidated general report on the local government audit outcomes: MFMA 2019-20" (Auditor-General, June 2021) and ""Building water resilience in South Africa's cities" (National Treasury, 2022).

[5] See "Building water resilience in South Africa's cities" (National Treasury, 2022), Strategic Overview of the Water Sector in South Africa 2019-2020 (DWS, 2021) and National Water Summit: 2022.

Area	Core ingredients of sound governance
	• Clear separation of governance role from day-to-day operations and management • Zero tolerance of corruption and patronage
Management	• Appointment of capable management team with mandate and autonomy to manage • Accountability for performance with incentives (annual performance review linked to remuneration)

Source: Summary Concept: Incentives to support municipal water service turnarounds. Draft: 27 April 2022. Prepared for National Treasury. Prepared by Cities Support Programme.

Leadership is needed both at the political level (by the Executive Mayor and the Mayoral Executive Committee) and at the senior level within the administration (City Manager and Executive Management Team) to ensure these elements are all in place and functioning effectively.

Key deficits in many municipalities are:

- An absence of leadership at the political level (water not considered a priority risk). This could be because of failure of communication – politicians are not made aware of the full extent of the problem or because short-term considerations trump the decisions, actions and investment priorities (often long-term or repairs and maintenance) necessary to make a significant difference (and to turnaround a water business).

The nature of infrastructure investment for water and sanitation requires a long term approach while political terms are short. This is compounded by most water and sanitation infrastructure being buried underground and therefore more difficult to use in public political campaigns compared to other services such as housing. Major infrastructure projects such as reservoirs, and treatment plants are typically located far away from households who benefit from their development.

- Oversight exercised without the necessary knowledge and skills to oversee a large, complex infrastructure-intensive business. Many elected representatives are inexperienced and without appropriate qualifications.[6]
- A failure to appoint a capable management team with the necessary management and technical skills. For large urban water systems, it is essential that professional qualified engineers are part of the management team. In addition, the lead executive needs to be suitably skilled to implement a business approach (see Section 2).
- Inappropriate interference in the day-to-day management of the business, including in staff appointment and procurement decisions, leading to poor decision-making and inefficient use of scarce resources. (See consequences of poor governance in Section 5.1.).

The remedy depends on well-informed political leadership willing to take a longer-term view (full term of office and beyond), and a strong capable core executive management team (city manager, chief financial officer and the executive lead for water).

[6] Salga CEO, Xolile George, noted that, while councillors did not require any particular qualification, their lack of skills had become a problem. "With almost 69% of councillors with either matric or less in the picture, and this is not to say the standard measure is above matric, but there's a need to have a multi-pronged strategy that recognises leadership competencies political leadership and maybe a degree of academic qualifications." (Eyewitness news, 16 April 2021; ewn.co.za/2021/04/16/salga-raises-concerns-over-councillors-lack-of-skills)

6.4 Improving governance through a company structure

Establishing a corporate structure (particularly in the form of a legally-separate company)[7] has several advantages that support a sound governance agenda. A corporate structure:

- Introduces the possibility of independent oversight by a suitable skilled and experienced Board of Directors; (Municipalities must rely on elected representatives to play this role when providing the service themselves through a municipal department);
- Creates financial transparency through the generation of a separately audited set of financial statements comprising a balance sheet, income statement and cash flow; (These have been sorely lacking when water is provided through a departmental structure within a municipality, although the mSCOA reforms now make more financial transparency possible);
- Creates clearer accountabilities for performance through a dedicated management team with a clear mandate and performance agreement with the Board; (Accountability is much more diffuse when water is provided by a department within a municipality, with poorly-specified and often unenforceable dependencies on other departments. It is easy to shift blame in this context);
- Creates a much clearer separation between the ownership and management roles, making inappropriate interference in the day-to-day operations more obvious and easier to manage. (In direct municipal provision there is no separation between ownership and management roles).

A company structure does not guarantee good governance

In light of the above, it could be argued that a company structure is a *necessary condition* for good governance of a large infrastructure-intensive service in the South African municipal environment given the absence of suitable skills among elected representatives. However, although a company structure is *enabling of good governance* (and arguably necessary), *is not a sufficient condition* for good governance. There are, unfortunately, many examples of failed or poor governance of state-owned and municipal-owned companies (public and municipal entities).

Ways to protect sound governance are discussed in the Section 9.

A ring-fenced business unit within a municipality can operate successfully but is more vulnerable to changes in leadership potentially eroding the business unit autonomy than a company structure is. Oversight would still be provided by Council, but financial transparency can be achieved through generation of separate financial statements and transparent, well-defined relationship with the city's corporate finance department as well as the business unit having clear accountability for all aspects of managing the water and sanitation business.

7 Structuring the water and sanitation service as a business

7.1 Why structure the water service as a business?

Metro water and sanitation businesses are significant. For example, the City of Cape Town water and sanitation business revenue is approximately R6 billion per annum, has an annual investment programme of about R2 billion per annum, and is responsible for assets with a replacement value in the region of R140 billion. Considerable and dedicated management attention to the business is both warranted and necessary. If the business is treated as only a technical department, the "whole of business" view is lost within the complexity of a much larger set of functions with multiple objectives

[7] Or at least a business unit within a municipality (see later discussion).

within the municipality. In this larger context, the needs and imperatives of the water and sanitation business are seldom fully appreciated, and do not receive the necessary management attention.

The consequence of not treating water as a business typically include the following:

- No clear picture of the true financial position (balance sheet) and financial performance (income statement and cash flow) of the business and hence an inability to assess financial performance of the business as a whole in a meaningful way. Instead, the key metrics measured are revenue and expenditure against budget.
- A failure to adequately resource the service in relation to its needs, that is, the capital and operating budgets are typically a product of an annual determination of a maximum increment rather than based on actual business needs.
- An inability to make appropriate trade-offs between capital and operational spending.
- A failure to recognize the specific technical and other competence requirements of the business in recruitment processes.
- Lack of transparency in inter-business costs and performance within the municipality, and absence and/or lack of enforceability of inter-business contracts.
- Decisions based on short-term considerations rather than the long-term sustainability of the business.
- Very low flexibility in deployment of resources as a result of strong rules against moving money between budget items within a year and a lack of flexibility of how people are deployed. This makes it difficult to respond to any unplanned challenges or changes arising during a financial year.
- An organizational culture that is risk averse and that penalises mistakes whereas innovative business cultures actively encourage experimentation and expect failures as part of this process.
- The absence of clear performance and shareholder (financing) agreements between the shareholder and the business entity.

7.2 What do we mean by a business approach?

The defining elements of a business approach to the provision of water and sanitation services is are set out in Annexure 1. In essence, this can be reduced to the following features:

- **Dedicated professional management team**: The business is led by an accountable multi-disciplinary and suitably skilled management team with a single executive lead responsible for all aspects of the business.
- There is **full financial transparency** (separate financial statements with an income statement, balance sheet and cash flow) with enforceable service contracts for services not undertaken by the business entity, including for services that may be provided by the 'parent' municipality.
- **Shareholder performance agreement & managerial autonomy**: The entity operates within an appropriate mandate of the owner/shareholder, in terms of a performance agreement, and with appropriate managerial autonomy related to the day-to-day operations of the business.

7.3 Options for structuring the water business

The main options for structuring water and sanitation businesses, where responsibility rests at the municipal level, are shown in Table 3.

Table 3: Water business structuring options

Option	Examples		Description and comment
	South Africa	International	
Municipal department	Almost all municipalities	Not common	This structure has not been conducive to a business approach and has resulted in a sector that is in decline, with very high levels of inefficiency and insufficiently skilled management and technical personnel.
Municipal business unit	eThekwini Water and Sanitation	Philadelphia Water Department	eThekwini Water was established as a business entity within the municipality but without a separate level structure. It adopted a business approach, and established a corporate culture and identity separate from (but linked to) the municipality, with separate financial statements, a focus on customer orientation and with its own call centre. eThekwini Water won the Stockholm Industry Water Award. This model is dependent on strong and mature leadership at both the business and political levels. Performance has declined in the last few years.
Municipal-owned company	Johannesburg Water (municipal entities as defined in the MSA)	Denmark, New Zealand (Wellington and Auckland)	There have been mixed results in South Africa for municipal entities. The combination of management contract and establishment of Joburg Water as a municipal entity (public company with separate board, financial statements) led to significant improvements in 5-year contract period. Without adequate governance protection, a municipal entity is another entity at risk of state capture and corruption. **Municipal-owned public companies are the dominant mode of provision of water and sanitation services internationally**. **Success depends on sound governance**.
State-owned enterprise	Water Boards (when providing a retail function on behalf of municipalities)	National water utilities typical in the case of small African countries; state-owned entities in federal arrangements, e.g. Sydney Water (New South Wales) in Australia	National government-owned Water Boards have responsibility for bulk water provision to municipalities but have little experience with retail services. Provision of retail services by Water Boards in South Africa on behalf of municipalities could result in low levels of accountability in the absence of competitive tendering for the service and without clear rules for enforcement of contracts.
Cooperative (community ownership)	None	Bolivia, Philippines, Denmark, Finland, Germany, USA.	More common for small systems (rural communities), however there is at least one example for a large city (Santa Cruz de la Sierra, Bolivia, with a population of 3.3 million.)
Mixed-ownership company /	None	Brazil, Colombia, Mexico, Spain (water)	Typically majority public-owned, and combined with a management contract implemented by a private ownership partner. Oversight occurs at two levels: through

Option	Examples		Description and comment
	South Africa	International	
Empresa Mixta [8]		New Zealand (electricity).	corporate governance and sector regulation (quality and pricing). Private ownership builds in additional incentives to perform, with increased oversight.
Private company (lease/affermage/ delegated management)[9]	Lukhanji (1992-2005)[10] (none operational)	France; Dakar (Senegal)	Private sector assumes operational responsibility and public sector retains investment responsibility and asset ownership. Contract regulation needed.
Private company (concession)	Mbombela (1999-) [11] Illembe (1999-) [12]	France; Manila (Philippines); Sofia (Bulgaria)	Private sector assumes both operational and investment responsibility but assets remain publicly owned. Contract regulation needed.
Private company (ownership)	None	Chile; United Kingdom; USA	Fully privately owned utility. Requires an independent economic regulator. Unlikely to be accepted politically in South Africa. Without proper and strong regulatory function this model has shortcoming as recently seen in the UK with costly under investment despite company profits[13].

The **shaded options in Table 3** above are not considered to be serious contenders to effect significant improvements in the municipal water and sanitation services in South Africa in the current context for the following reasons.

- **Municipal departments (status quo)**. The outcomes from over 20 years of implementing this structure are overwhelmingly poor. Alternative options to the current dominant mode of provision are explored in this resource document.
- **State-owned enterprises**. The provision of local water services by **state-owned enterprises** does not address accountability and governance risks in a context where local governments retain constitutional responsibility for service provision. Actual interventions by water boards to provide municipal services on behalf of municipalities have not been successful.
- **Lease, concession and full private options** are assumed to be politically unacceptable. In addition, they tend to remove public accountability by locking the government in the long term contracts while the private sector is under-investing and profiteering.

This leaves four options to could be considered:

1. **Municipal business units**. Corporatization of the service but within the existing municipal legal structure (previously successful eThekwini model).

[8] Mixed Private-Public Ownership Companies "Empresa Mixta" (Castro and Janssens, 2011)

[9] "The rise of hybrid delegated management contracts: emerging lessons from France" (Water Utility Management International, June 2011)

[10] Queenstown Transitional Local Authority at the time of the contract in the period 1992 to 2005. This was not a full lease contract as responsibility for customers was not delegated to the private operator.

[11] Case Study for the 10 Years of the Mbombela (Nelspruit) Water and Sanitation Concession: South Africa.

[12] Public-Private Partnerships and the poor - Case Study- Dolphin Coast water concessions, Dolphin Coast, South Africa. (World Bank, 2019)

[13] https://www.waterdiplomat.org/story/2023/10/challenges-plague-uks-privatized-water-industry

2. **Municipal entities**. Municipal-owned companies as defined in the Municipal Systems Act (the Joburg Water model).
3. **Cooperative ownership models**, with community ownership.
4. **Mixed-ownership companies** (Empresa Mixta), that are majority-owned by the municipality (or municipalities). This is a new model not yet used in South Africa and it may require amendments to the legislative framework to implement.

In considering these four options, the following needs to be taken into account:

- The private sector could potentially play an important role to bring much needed management capability into the sector relatively quickly compared to the alternatives.
- Water services provided in cities will need to access commercial finance to support investments in the context of limited availability of grant funding.

These considerations are discussed in the following two sections.

7.4 The differences between department, business unit and company structure

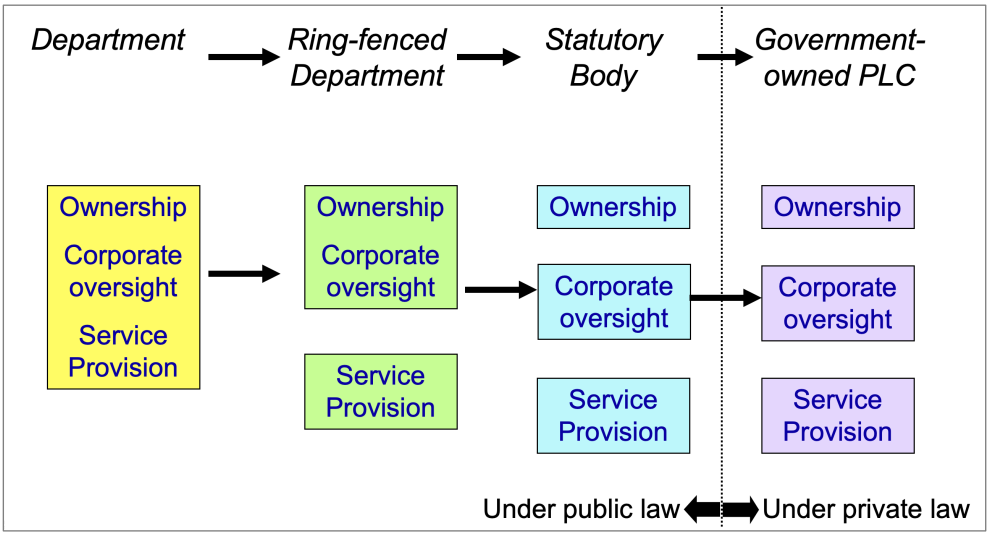
When providing water and sanitation through a department within the municipality (the dominant status quo model in South Africa), the ownership, oversight and provider roles are all combined in a single organisation. In theory, Council fulfils the ownership and oversight roles, and the administration the provider role, but there is a risk (often realised) of an intrusion of the ownership and oversight roles into the day-to-day operations of the service.

When a ring-fenced business unit is created, there is an opportunity to establish greater management autonomy and to structure the business unit as a business. This was achieved to a large extent in eThekwini. However, the protection of this business unit relies on a mature ownership and oversight environment. The business unit is at risk of 'capture' by the ownership and oversight function, eroding the separation, and making the business unit much like a department. The deterioration in the performance of eThekwini Water and Sanitation business unit over the last few years suggests that this has occurred.

The establishment of a company structure formally separates the ownership, corporate oversight and management functions. There are two main forms of company structure, a statutory body (formed in terms of specific legislation) or a company established in terms of private company law. This is an ideal model, however, it is not protected from an erosion of autonomy of penetration of corrupt interests and requires strong governance norms to uphold autonomy and professionalism.

The main corporate forms are shown in Figure 2.

Figure 2: The separation of ownership, oversight and management roles is established through a company structure



8 Increasing management and technical capability

8.1 Options to increase management and technical capability

As already noted, there has been a significant decline in the necessary management and technical staffing capabilities within municipalities to manage the water and sanitation services effectively, and these are now in short supply in most municipalities.

8.1.1 Internal capacity building, with external support (keeping existing delivery model intact)

Municipalities could build their own capacity, through recruitment and training, with external support, while maintaining the existing service delivery model. Various municipal support initiatives have been attempted and some are ongoing.[14] Success in turning around the performance of municipal water and sanitation services as a result of these initiatives is, in general, not apparent.[15] For example, a review of the Siyenza Manje support initiative, specifically focused at increasing technical capacity in the municipal water sector, through deployment of engineers, concluded that the majority of the problems at municipalities are structural, organisational and political in nature, with high municipal vacancy rate in key technical and senior management posts, and that the support requests tended to focus on addressing a short-term crisis rather than capacity development in municipalities.[16]

The CSP has provided technical assistance to seven metros[17] with the intention of supporting a turnaround in the performance of the municipal water business.

In light of the above, there is little likelihood that a strategy of internal capacity building (at least on its own) will result in the necessary turnarounds of the municipal water business.

[14] For example, Project Consolidate (2004-2006**),** Siyenza Manje (2006-2011), Local Government Turnaround Strategy (2009-13); Back-to-basics initiative (2014-18), Municipal Infrastructure Support Agency (MISA) (established in 2012), Cities Support Programme (established in 2011).
[15] A review of the successes and failures of these initiatives is beyond the scope of this report.
[16] pmg.org.za/committee-meeting/12999/
[17] Nelson Mandala Bay, Mangaung, Buffalo City, eThekwini, Johannesburg, Tshwane and City of Cape Town.

The difficultly faced in many municipalities is that the knowledge of what good performance looks like does not exist. It is very hard to achieve good performance if there is no belief that good performance is possible, and no practical knowledge of what it will take to achieve this good performance.

8.1.2 Creating a company, supported by a management contact

An alternative route to building capability is to professionalize the service through setting up a company structure, and to build capacity through recruitment into the company structure, supplemented with training initiatives. A management contract offers a possible vehicle to fast-track the creation of both management and technical company in this company structure.

The benefits of this approach are two-fold:

- Service conditions within a company structure are likely to be more favourable and it will be more possible to attract the necessary expertise into this structure (MFMA/PFMA prescripts will still exist); and
- The case for management contracts is very strong (see Box 2) and management contracts are much more likely to be successful when applied to a company rather than a department within a municipality.[18]

Box 2: The case for management contracts in the water sector

Municipal water businesses are in serious financial trouble, including in four metros – eThekwini, Mangaung, BCM and NMBM. The cost of inefficiencies is very large, more than R10 billion per year, just for the metros. There is a shortage of management capacity with necessary skills and experience to effectively manage water business in South Africa. It will take long to build up necessary internal capacity and this will be going 'against the grain' because the trends are all is in opposite direction. Management contracts can supply management and technical capacity quickly, and support capability building. Management contracts will achieve better performance outcomes, more quickly, saving money if well-structured and implemented.

Source: Concept Note: The importance of management contracts as an intervention to improve the management of water services in South Africa (February 2021, National Treasury).

There is precedent in South Africa for the use of a management contract to support the setting up of a company structure and to build the capacity of this structure for the provision of water and sanitation (see Box 3).

8.1.3 External contracting

Another way to provide capacity is to contract the service out, either to a private or public entity that has this capacity. Although water boards have technical capacity that is likely to exceed that of individual municipalities, it is not clear that water boards have the capability or experience to manage large retail water services business. This is because their core competence is to operate bulk water supply systems, a wholesale business with just a few customers, which is very different business compared to a retail business with many thousands of customers.

[18] A legal opinion commissioned by National Treasury concluded that "As a legal matter, the creation of a municipal entity undoubtably makes the conclusion of an effective management contract easier for the reasons discussed in this section and the previous section of the Report." (Legal Report on the use of Management Contracts as a mechanism to turnaround municipal water businesses (29 November 2021, World Bank)

Contracting out the service to a private operator, through a lease, affermage or concession contract is also possible. These public-private partnership options are not considered further for reasons already given.

Box 3: Using a Management Contract to Carry Out a Complete Corporate Reorganization of the Water Utility in Johannesburg

Before 2000, responsibilities for water and sanitation services in Johannesburg were spread across six separate municipal departments: four geographical departments were in charge of water distribution and sewerage networks (answering to four local councils); one department was in charge of the operation of wastewater treatment plants; and the central level of the municipality directly handled all matters related to customer relationships, revenue management, procurement, and finance. This fragmented structure had generated a "silo mentality" among the staff, with a dilution of responsibility and accountability, and customer service was notoriously poor. To remedy this situation, Johannesburg Water was established in 2000 as a new corporatized public utility responsible for water and sanitation services. The main rationale for bringing in a private operator under a five-year management contract was to establish Johannesburg Water as a viable and efficient water utility.

A major part of the job of the private operator was to organize the newly consolidated utility, putting the proper work procedures in place and training employees. The goal was not just to design a new organization chart; it was, most important, to instill a new corporate culture focused on service and efficiency. This was a major challenge with employees who had previously operated under an old-fashioned bureaucratic culture. Implementing such a change was a long and gradual process, in which the daily coaching by the operator staff played a major role. One example of the many measures taken to foster change was empowering line managers to take more initiative in their daily job, as long as this would benefit the quality of service to customers or result in efficiency savings. The average salary per employee went up by 23 percent in real terms during the management contract.

A major effort to promote a new generation of managers and professionals was carried out in parallel with this cultural change. The 693 promotions that occurred during the management contract mostly benefited staff members belonging to groups that previously had faced discrimination in the apartheid era. Although the total number of staff members remained fairly stable (rising from 2,500 in 1999 to 2,600 in 2006),

945 skilled employees were recruited during the management contract, again largely from previously disadvantaged groups.

Source: Marin, Mas, and Palmer 2009, as presented in Concept Note: The importance of management contracts as an intervention to improve the management of water services in South Africa (February 2021, National Treasury)

8.2 Establishing sound management contracts

(Further detail on Management Contracts is set out in "Concept Note: Management contracts as an intervention to turnaround municipal water businesses." (National Treasury, 2021)).

8.2.1 Lessons from experience

Key lessons from previous management contracting experience include the following:[19]

1. **Good contract design**. Good contract design is crucial for success. There is a wide body of experience to draw on to create good contracts.
2. **Sound contracting process**. The process of contracting is as important as contract design. The process needs to be competitive, transparent and corruption free. The process needs to be able access contractors with the necessary skills, capability and experience. The outcome needs to offer value for money while not compromising on managerial capability and suitable experience.

[19] See "Concept Note: Management contracts as an intervention to turnaround municipal water businesses." National Treasury, 2021

3. **Effective contract management**. The contracts need to be well managed, with regular meetings, good reporting, auditing of results and effective mechanism to speedily resolve any emerging challenges.
4. **Appropriate funding model**. The cost of the management contract needs to be proportional to the value that can be created through incentives. Ideally, the cost of the contract should be paid for through increases in revenue and through expenditure efficiencies. In some cases grant support may be required, especially during the first two years of the contract.
5. **Leveraging commercial finance**. Management contracts in the South African water sector should have, as an important secondary objective, the goal of raising additional commercial finance for investment in water infrastructure in South Africa's cities, in the context of scarce financial resources and the large investment and financing gap.
6. **Professional support entity for all aspects of process**. A dedicated professional unit, with the necessary skills and experience, that support the management contracting process, including contract design, contract award and contract management, is a critical success factor. Such a unit will improve the success rate, improve value for money, lower overall costs and reduce the risks of failure.

8.2.2 Legal considerations

National Treasury commissioned a legal opinion on management contracts that concluded that a management contract similar to that used for the establishment of Johannesburg Water would not constitution a PPP transaction as defined in National Treasury's PPP framework, thus considerably simplifying the transaction. However, the same review concluded that such a management contract is more likely to be effective is applied to a fully ring-fenced entity with managerial autonomy from the municipalities (for example, a municipal entity). The creation of a municipal entity will require a Section 78 process in terms of the Municipal Systems Act.[20]

A management contract applied to a department of business unit of a municipality would not result in the outsourcing a municipal function and therefore a section 78 of the Municipal Systems Act would not be required.

Because management contracts should be contracted for a period of five (or more) years, a Section 33 process in terms of the Municipal Finance Management Act applies.

8.2.3 Funding management contracts

The cost of the management contract can come from services revenue or grants, or both. The benefits of a well-performing management contract will far exceed the costs of the contract. Therefore, in most cases, it should be possible for the costs of the management contract to be paid from the increase in revenues and cash collected together with savings from efficiency gains. In some cases, it may be hard to afford the additional costs in the early part of the contract (especially the first year or two). This can be catered for through how payments are structured, or the contract could be paid for (in part) from an existing (or new) grant or financing mechanism.

8.3 Arguments against management contracts

Management contracts could be perceived to be expensive or to have a high risk of failure. Where a management contract is effective, it will almost certainly be the case that the benefits will exceed the costs. Where services are inefficient, the value of the benefits could be very large. For example, the cost of inefficiencies for Nelson Mandela Bay is close to R1 billion per year. If just half of this is achieved, the value would represent R500 million per year. The cost of a management contract would

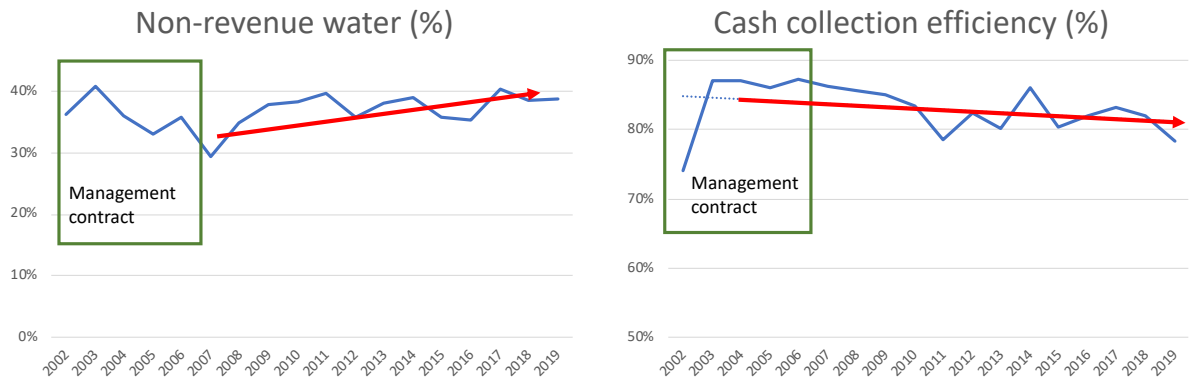
[20] Legal Report on the use of Management Contracts as a mechanism to turnaround municipal water businesses 29 November 2021. Prepared by the World Bank Group for National Treasury.

be much less than this. The challenge therefore is to ensure that a management contract is successful. (See “Lessons from experience” above.)

8.4 Conclusion

Given the poor history of municipal capacity building efforts over the last fifteen or more years, the option of increasing capacity through setting up a company structure supported by a management contract should be considered as a serious alternative, in light of the significance potential benefits as shown in the example of the Johannesburg Water management contract (see Box 3). The Johannesburg example shows that management contracts with corporatization can work very well, with demonstrable performance improvements in non-revenue water and sanitation collection over the period of the contract from 2001 to 2006 (Figure 3).

Figure 3: The benefits of a management contract can be significant - the example of Johannesburg Water



Source: Concept Note. The importance of management contracts as an intervention to improve the management of water services in South Africa (National Treasury, 202)

The evidence also shows that corporatization on its own is not a sufficient condition for good performance. City Power (also set up as a corporate municipal-owned entity) and other municipal entities set up without management contracts have not performed well. The performance of Johannesburg Water after the management contract also declined (Figure 3), showing the need to continue long enough to build internal capacity and incentives and to create a structure that is more robust to protect and extend performance improvements (see Section 6 “Governance”).

9 Access to commercial finance to increase the level of investment

9.1 Investment needs and a funding gap (national perspective)

There is strong evidence that current levels of investment, combined with the effectiveness in the way these investments are implemented, are insufficient in relation to the need. At a sector level (water resources and water services), it is estimated that the investment gap is of the order of R30 billion per year. While this could be an over-estimate, there is little doubt that both the level and efficiency of investments need to be increased in the context of the key investment cost drivers shown in Table 2.

Table 4: Investment cost drivers

Category	Major cost driver
New supplies	New sources of water to supply needs are more expensive than those already used, for example, the next phase of the Lesotho Highlands scheme and when reuse and desalination are needed at scale.
Water treatment	Expansions, rehabilitation and upgrades of water treatment plants are needed.
Bulk water	Major cities need to invest in their bulk water systems to increase resilience when getting water from multiple sources (for example, Cape Town and Nelson Mandela Bay).
Water and sewer network	There has been historic under-investment in the water network and there is now a rehabilitation backlog (pipe replacement) in addition to expansion needs.
Informal areas	There is rapid growth in informal settlement populations, particular on the periphery of the major cities, increase needs to investment in water and sanitation in these areas.
Wastewater treatment	Most wastewater treatment plants in South Africa are in poor condition and many are under-capacity. There is a major need for investments in the rehabilitation, upgrading and expansion of wastewater treatment plants.
Reuse	As the need for water reuse increases, additional investments will be needed to meet stringent quality standards, particular where water is reused and treated for drinking water purposes.

9.2 Making better use of limited grant funding (national perspective)

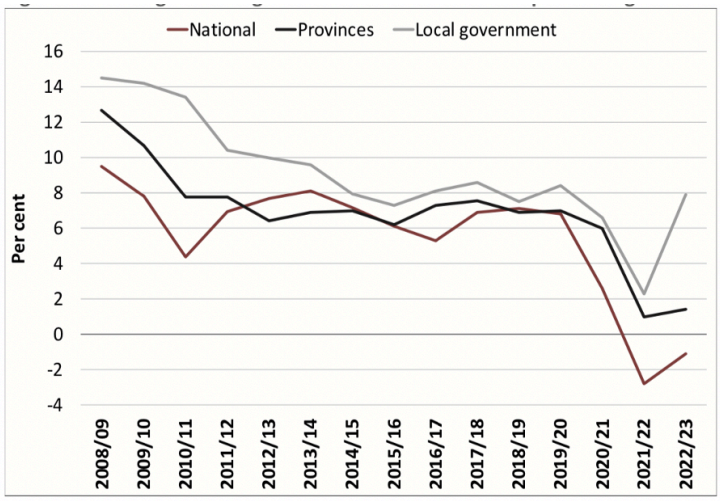
Significant grant funding flows

According to municipal budget data (2020/21), annual capital investment by municipalities was about R70 billion, of which R40 billion (60%) was provided by national government in the form of grants. Total capital expenditure on water and sanitation was close to R25 billion (36% of municipal capital expenditure). This means that the municipal water and sanitation sector receives capital grants of about R15 billion per year.

Limited ability to increase grant flows in future

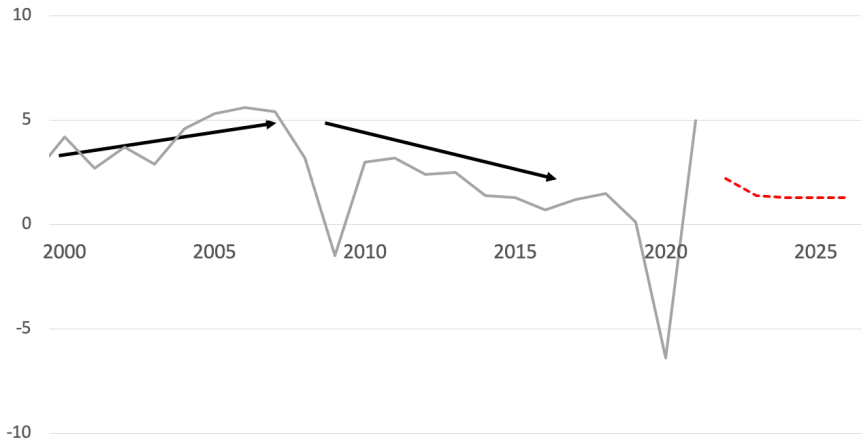
While grants to local government have increase significantly above inflation in the past, the rate of increase has been declining (Figure 4). The scope for increasing grants significantly in real terms (at rates above inflation) is limited *unless and until* government finances improve on the back of economic growth and growing tax revenues (Figure 5).

Figure 4: Average annual rate of growth in budget allocations to local government, compared to other spheres



Source: National Treasury

Figure 5: Annual real growth in GDP from 2000, with forecast for 2022 to 2025 (% per year)



Source: IMF (2022)[21]

Making better use of grant funding

Grant spending funding suffers from the following inter-connected challenges:

- Municipalities lack the technical capability and capacity to spend grants effectively. This often means that allocated grants remain unspent at the end of a financial year.
- Projects are chosen for the wrong reasons, and capital allocations are not optimized. For example, some municipalities have actively pursued large expensive water supply projects such as desalination when much more cost-effective options to address the demand-supply are available but have not been implemented (for example, non-revenue water reduction).
- Procurement processes are captured for corrupt purposes, leading to inflated prices and poor project outcomes.
- Supply chain management processes are overly onerous and privilege form (a tick box exercise) over substance (obtaining value for money).

[21] https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/ZAF

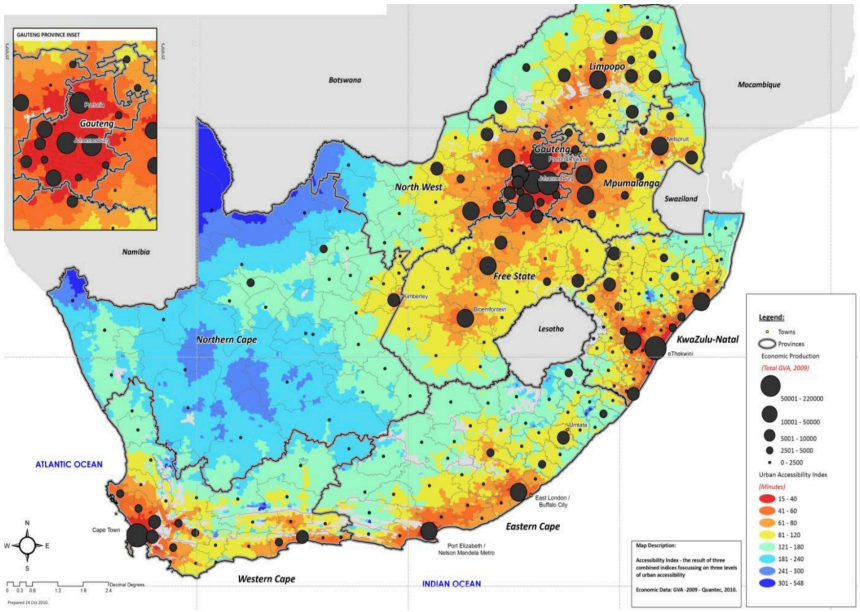
The result is extremely poor value for money from the significant grant spend in the sector overall.

This problem cannot be solved by throwing more good money after bad. It is imperative that existing grants are used more effectively and efficiently.

9.3 The need for, and feasibility of, commercial financing (national perspective)

More commercial funding is needed to fill the funding gap. Commercial funding is entirely feasible to support water and sanitation infrastructure investments in South Africa's main economic hubs (Figure 6), but *only where* water services are effectively and efficiently managed.

Figure 6: South Africa's economic hubs (illustrative)



Source: CSIR (2015).[22] Note: Size of circles indicates extent of economic activity as measured by Gross Value Added (GVA).

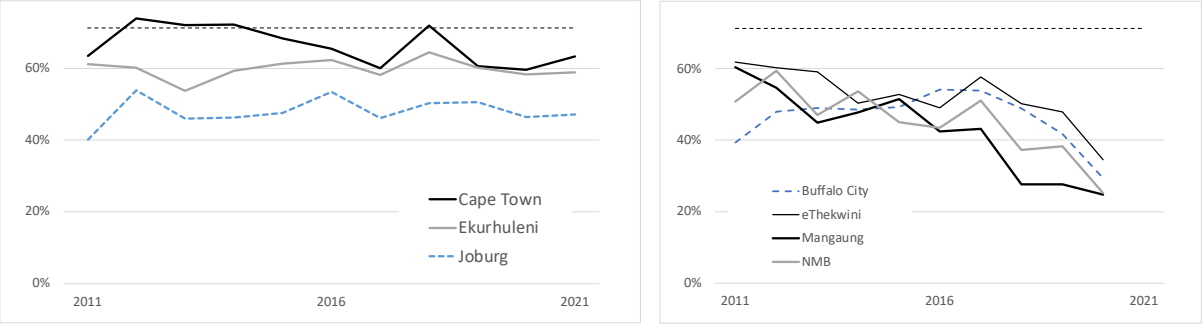
9.4 Access to commercial finance needs a business turnaround in the water service

Consider the efficiency of metro water businesses (Figure 7). Commercial funding is unlikely to be feasible in the case of five of the seven metros because of low and declining levels of efficiency, and in the absence of a business turnaround.[23] The situation is worse in most of the other municipalities in South Africa.

[22] //stepsa.org/pdf/projects/edd_tools/Spatial%20Representation%20Overview%2015%20Feb%202011.pdf

[23] A benchmark for efficiency in the South African context is 71% (75% x 95%). Four metros have an efficiency of below 40% and another below 50%. Only two have an efficiency of close to or above 60%.

Figure 7: Efficiency of water business in seven metros



Note: Efficiency is calculated as the volume of water billed and for which payment has been collected divided by total system input volume.

Source: Data reported by metro municipalities to National Treasury.

10 A governance-protected municipal water company

10.1 Creating a purpose-built governance-protect municipal water company

The need for commercial finance combined with the imperative of sound governance creates an opportunity to create a corporate structure with protected governance that would be attractive to commercial lenders.

The proposal is to create a *purpose-built* "South African water company" structure and template with *built-in features* that would ensure and protect sound governance.

This company structure could be offered by National Treasury to be used as a vehicle to provide municipal water services, together with incentives of financing through grants, facilitated access to commercial finance and with technical assistance to establish the company.

The company template would need to go beyond a tick-box exercise to ensure that there is sound governance in substance, not only in form.[24] Special care is needed because public companies, "by their very nature as publicly-funded entities, are not subject to the same market discipline or shareholder oversight as other entities" (FutureGrowth, 2018).

10.2 Protecting governance

The development of this *company template* (and the associated processes to form and govern the company) could learn from practical experience gained in South Africa. A review of governance failures in South Africa's state-owned entities identified four areas where governance can be improved, noting that "corporate governance is better understood as a "web" of oversight by stakeholders (for example, shareholders, directors, employees, regulators, suppliers, financiers, auditors, corporate secretaries) as well as a range of policies, practices, protections and disclosures":[25]

1. **People.** The review noted that "an organisation can have all the trappings of governance such as a board, committees and policies - but if it has corrupt or ill-intentioned shareholders or leaders then policies and practices are all at risk. In the first instance, improving governance means improving the selection and appointment process of individuals on boards, board sub-

[24] See "SOE Governance Unmasked: A learning journey" (Future Growth, 2018).
[25] "SOE Governance Unmasked: A learning journey" (Future Growth, 2018: 5-8).

committees, and executive management." In the case of public companies, this also implies improving the selection process of shareholder representatives.

2. **Processes.** Three key processes need to be given careful attention**:**
   - **Board of directors and board committees**: The review noted that "all corporate governance begins with the board of directors, so its composition and operations must be appropriate."
   - **Governance policies**: Governance policies need to cover all major business areas (e.g., procurement, recruitment, financing) as well as key risk areas (e.g., remuneration, dealing with politically exposed persons and conflicts of interest), be fit-for-purpose and protective of sound governance.
   - **Internal watchdogs**: The review noted that "even the best governance arrangements will degrade without active oversight. There are always witnesses to poor governance – such as executives, auditors, employees, and suppliers – who almost universally fail to speak up. Insiders invariably know the truth and it is self-evident that confidential whistleblowing mechanisms should always be in place, with suitable processes and protection."
3. **External oversight through transparency and reporting**: The review noted that "investors, bankers, ratings agents, regulators and the public are 'always the last to know' when governance goes wrong. External parties need complete and timely reporting of details about the membership and operations of boards, committees and executives, as well as the governance policies and practices." These detailed requirements need to be built into the governance processes above, as explicit reporting requirements.
4. **Shareholder role**. The executive authority is the owner (municipality, or municipalities) and the owner bears the primary responsibility for appropriate oversight and accountability. The review notes that "the layer of governance that exists between the board of the company and its executive authority is embodied in the *shareholder compact*" and that "the shareholder compact should enable the shareholder to monitor 'the extent to which the board as a whole and individual directors achieve the objectives and any specific performance targets set, and where necessary, effect any remedial action'". The review notes that the shareholder compact is in essence "a performance contract, agreed between the executive authority and the board, and designed to hold the board accountable for delivery of the mandate." They note that "the terms and key performance indicators (KPIs), and measurements against set targets" should be disclosed as part of the annual public reporting by the company.

10.3 Establishing the company with the help of a management contract

In much the same way that Johannesburg Water was created, a purpose-built and governance-protected municipal water company owned by a Municipality could be capacitated through a management contract. See Section 8.1.2.

11 Process considerations

11.1 Starting conditions for successful reform

Empirical evidence strongly suggests that specific factors need to be present to start a turnaround process for a water business. While these do not ensure success, they are an important starting point:

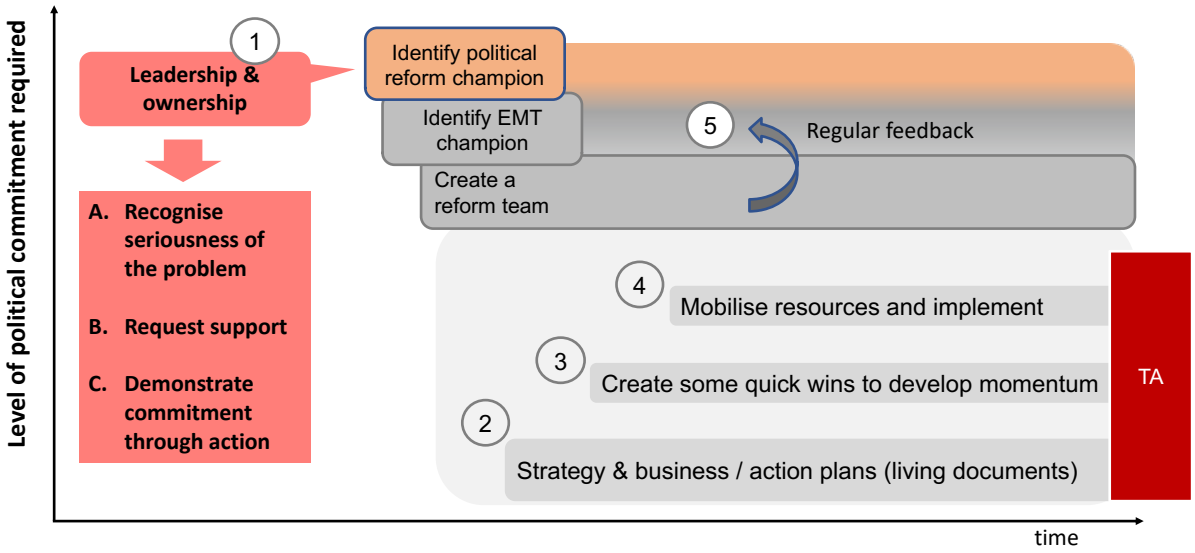
- A **catalytic event** that triggers a need to change (a crisis);
- **Committed and capable leadership** to guide the utility through the process;

- The possibility of establishing sufficient **managerial autonomy** over key aspects of the business, including operations, finances and contracts;
- A **political champion** committed to making the necessary changes in the governance environment to support good performance.

11.2 Political and administrative leadership of the process at municipal level

National Treasury emphasises the important of leadership in leading the turnaround of the municipal water business. CSP's approach has been to offer technical assistance and other support where this leadership is in evidence and in response to a letter of request from metro leadership, as shown in Figure 8.

Figure 8: A leadership first model



The requests needed to identify both a political and administrative reform champion and a municipal reform team. The municipality needs to demonstrate its commitment through its actions. In response to the request, the CSP provided technical assistance to:

- Support the development of a turnaround strategy and business plan.
- Advise on the implementation of the strategy and business plan, with a focus on quick wins to gain momentum.
- Assist with the mobilisation of further resources to help with implementing the turnaround strategy.

11.3 Learning from other experiences in turning water businesses around

A lot has been written about the turnaround of water businesses and these are useful resources to inform the development and implementation of municipal water business turnaround strategies in South Africa

In South Africa, examples of turnarounds in the municipal water business include:

- **eThekwini**: Municipal-led partnership: Reforms were precipitated by merging of municipalities into a single metro in 2000. No formal technical assistance was provided but good use was

made of international partnerships. The pro-poor reforms and improvements in service and performance were recognised internationally through the award of the Stockholm Water Prize;

- **Johannesburg**: National Treasury initiated but municipal-led, with management contract & finance: A financial crisis in the City of Johannesburg precipitated a requirement for the City to reform its service provision functions. Management expertise was provided through a management contract, combined with financing through AFD. The National Treasury provided support for contract design.
- **Cape Town**: Municipal-led turnaround with technical assistance: Technical assistance was offered and is being used in response to the drought crisis and to develop and implement a water strategy including a turnaround of technical and financial performance. Technical assistance is being provided by National Treasury's Cities Support Programme, KfW and AFD;

Internationally there are some classic examples of turnarounds, including but not limited to:

- Haiphong Water Company Vietnam
- Phnom Penh, Cambodia
- National Water and Sanitation Water and Sewerage Corporation, NWSC
- Nyeri Water and Sewerage Company, Kenya
- ONEA, Burkina Faso

The following publications are useful starting points:

- Review of success stories in urban water utility reform (SECO, 2016)
- Providing Water to Poor People in African Cities Effectively: Lessons from Utility Reforms (World Bank, 2016)

11.4 Toolkits and resources

11.4.1 Stakeholder mapping and building a supportive coalition of stakeholders

It is important to include stakeholders in the strategy development process. The basic steps involved are as follows:

1. Identify the stakeholders
2. Analyse stakeholders by the extent that are affected by the proposed/likely changes (impact) and the degree to which they can affect the outcomes (influence) (*stakeholder mapping*)
3. Plan a stakeholder engagement and communications process based on this information
4. Engage with the stakeholders

11.4.2 Change management

There is a saying that "organisational culture eats strategy for breakfast". Without a change in the organisational culture it will not be possible to implement meaningful change. Change management is therefore a critical component of implementing a strategy. This is a complex field and beyond the scope of this resource document to elaborate on.

11.4.3 Creating space for reform through a 100 days programme

Experience suggests that quick wins early in the process are important to develop momentum for the reforms and to get the necessary wider support for the reforms. Possible approaches include a "100

days" programme. See, for example, the Utility Turnaround Framework (World Bank) and Utilities of the Future (World Bank).

11.4.4 Utility turnaround frameworks

Useful resources include:

- SECO's Urban Water Utility Reform tool,[26]
- KfW's Urban Water Catalyst Initiative, an initiative specifically aimed at support utility turnarounds.[27]
- The World Bank's Utility Turnaround Framework,[28] and,
- The World Bank's Utilities of the Future.[29]

11.4.5 A basic work plan template

A generic work plan template, with key milestones, that can be used to develop a plan for developing a strategy is provided below (Table 5).

Table 5: Work plan template with milestone

Item	Milestone/output	By when	By whom
1. Admminstrative leadership- Executive Management agrees to the development of a water strategy within a defined timeframe	Management minute		CM
2. **Political leadership**: MAYCO supports to development of a water strategy within a defined timeframe	Mayco minute	**	CM & Mayco
3. **Stakeholder mapping** undertaken	Stakeholder mapping	**	Strategy lead
4. Develop and agree on a **strategy process work plan**,	Agreed strategy process work plan (Exco minute)	**	Exco
5. **Strategy workshops** planned and held.	Minutes of workshops	**	Strategy lead
6. Strategy drafting	Final draft turnaround strategy	**	***
7. Water Business Turnaround Strategy approved by Council	Council approved Water Business Turnaround Strategy	**	Council
8. Decision on **mechanism to build capability** to implement turnaround strategy	Council resolution	**	Council

12 Additional resources

[26] Urban Water Utility Reform – A tool for analysis and dialogue (SECO, 2018)
[27] Brochure: The Urban Water Catalyst Initiative - Accelerating utility turnarounds to deliver on SDG 6 and 13 , August 2022. (KfW, 2022)
[28] Water Utility Turnaround Framework: A Guide for Improving Performance (World Bank, 2018)
[29] https://www.worldbank.org/en/topic/water/publication/utility-of-the-future#

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Annexure 1: A business approach

The following are defining elements of a business approach to the provision of water and sanitation services:

1. **Leadership and management**: The service is led by a business-oriented single executive lead ("Chief Executive Officer") and managed by a multi-disciplinary management team reporting to, and including, the executive team lead. This team has a dedicated focus on business performance and outcomes, and with individual and collective responsibility for outputs and outcomes, suitably incentivised.
2. **Time horizon**: Investment and management decisions are taken on the basis of a multi-year and long-term outlook in light of the fact that the water and sanitation business is infrastructure intensive.[30]
3. **Financial accounting**: The business entity has a separate income statement, balance sheet and cash flow so that the financial status and performance of the business can be assessed. The financial statements record the assets and liabilities of the business and are audited separately from the municipality's primary accounts.
4. **Performance reporting**: There is a suitable set of integrated performance metrics for the business (financial and technical) that is measured and reported at least annually, along with appropriate benchmarks.
5. **Business integration**: The core functions of the business (human resources, finance, information technology, supply chain management, project management, communications, call centre, fleet management, meter reading, billing, cash collection etc.) are tightly integrated into the business. Where these functions are performed by an external entity to the business, these are performed in terms of well-structured and enforceable service level agreements.
6. **People**: The business has the responsibility to recruit (and dismiss or retrench if necessary) and to set pay and incentive structures subject to relevant legislation.
7. **Trade-offs between operational and capital spending** are routinely taken into account in decision making.
8. **Flexible deployment of resources**: The entity is able to flexibly deploy staff and capital so as to optimise outcomes.
9. **Mandate, performance agreement and managerial autonomy**: The entity operates within an appropriate mandate of the owner/shareholder, in terms of a performance agreement, and with appropriate managerial autonomy related to the day-to-day operations of the business.
10. **Shareholder financial agreement:** there is an agreement with the owner/shareholders on how inter-business costs are treated and the contribution provided to and/or from the municipality, and how investments are financed. In general, this is expected to comprise two components: (a) An expectation that the business will earn a profit that provides a reasonable return on capital invested, and (b) social goals are addressed through explicit Community Service Obligations for which the government pays by way of operational costs and through explicit grant-financing for capital projects that are not expected to earn a return.

[30] The water business is more infrastructure intensive than electricity, for example. Infrastructure intensity (or capital intensity) is measured as the ratio of asset values (at replacement cost) divided by annual revenue (www.investopedia.com/terms/c/capitalintensive.asp)