

Developing a strategic business plan for your agency

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Getting a firm handle on your agency's operations is a tremendous challenge for any public works director, particularly in this era of "lean and mean" local government. Doing more with less is the watchword for most city or county commissions across the United States still reeling from the financial impacts of the Great Recession. In my opinion, what most agencies sorely lack is a firm road map on how to direct their future operations.

While the discussion in this article will be primarily focused on solid waste operations, my experience across the variety of public works services suggests that many of the planning lessons learned mentioned in this article can be applied to most, if not all, public works functions. Good planning, while not a panacea for all your agency's problems, can help provide the tools to improve your operations as well as communicating alternative options to your decision makers and stakeholders.

Why is Business Planning Important?

Oftentimes, the spotlight of public attention is focused on solid waste agencies because of the perceived high costs to provide collection, recycling, and disposal services. Demands from public decision makers to keep local government operations efficient has oftentimes meant that agencies have not raised solid waste rates even while costs for critical cost items as labor, benefits, fuel, maintenance, and vehicles have increased dramatically

in recent years. Many still have a portion of their revenues spent on unrelated activities or "free" services making full cost accounting difficult and adding to agency overhead. Lastly, competition from private sector vendors makes the threat of privatization intense and is used as a "hammer" by politicians seeking ways to keep rates and taxes low in their terms of office. For these reasons, I would argue that strategic business planning is an essential tool today for any public works manager.

The Competitiveness Scan

What I call the Competitiveness Scan starts off with a structured planning method termed "SWOT" which includes an analysis of the strengths, weaknesses, opportunities, and threats involved in the agency's operations. Strengths simply mean the advantages of the agency's operations over its competitors. Weaknesses are the characteristics of the agency's operations that are at a disadvantage to other competitors. Opportunities are potential new markets or customer service areas that could provide additional revenues or provide enhance service satisfaction. Lastly, threats are elements in the watershed or service area that could provide opportunities to competitors.

SWOT analysis is a tool to help an agency consider its strengths and weaknesses in assessing potential opportunities for developing effective business strategies to achieve new market opportunities and respond to market threats. It is best conducted

with the use of a varied group of agency staff (operations, finance, engineering, etc.) and with a series of probing questions such as:

- What do best?
- What areas need improvement?
- Is the perception of your agency positive?
- What factors are beyond your agency's control?
- Has there been a change in pricing for essential agency resources (landfill space, price of diesel, etc.)?

As part of the threat analysis I have always found it important to benchmark the performance of the agency against competitors or similar agencies that seem to be "best in class." The objective is to answer the question: How does the agency stack up against similar agencies or departments in your region?

I would argue that benchmarking is a critical step in any business planning process. "Benchmarking" can be defined as the systematic process of searching for best practices, innovative ideas, and highly effective operating procedures that lead to superior performance—and then adapting those practices, ideas, and procedures to improve the performance of one's own organization. Benchmarking has been widely embraced by both the private and public sectors as an essential business practice for continuous performance improvement.

Exhibit 1. Top Ten Strategic Planning Issues for Solid Waste

1. How should free services to municipal departments be continued, and at what level?
2. Should you establish levels of service and extra fees for yard waste and bulky waste collection?
3. What is a reasonable rate fund balance given continuing agency contingencies? 10, 15, or 20% of annual operating expenses?
4. Have we considered the impact of retirements and loss of employees?
5. Should you assess private haulers a franchise fee?
6. Should your rates include discounts for senior citizens or disabled residents?
7. How should landfill closure and post-closure care be funded?
8. How should vehicle replacement be funded? Loans? Bonds? Lease Purchase?
9. Should your rate structure include some form of per unit rate for size of container ("pay as you throw" rates)?
10. Should the agency's customer rates include an annual inflation escalation?

Solid waste collection managers rely on benchmarking data to:

- Objectively measure the quality and levels of the services they provide.
- Identify and implement best practices that will enable them to reduce costs and improve services.
- The need for benchmarking residential solid waste collection services has long been recognized by solid waste collection system managers.

There have been a number of national and statewide benchmarking studies conducted by the Solid Waste Association of North America (SWANA) Applied Research Foundation and state public administration groups such as the University of North Carolina-Chapel Hill, Institute of Government, *North Carolina Local Government Performance Measurement Project*. This benchmarking project has been collecting and analyzing solid waste collection benchmarking cost and performance data for 16 North Carolina jurisdictions for over a decade. SWANA published its benchmarking results for solid waste collection systems in 2008 in a book entitled *SWANA Benchmark Project for Residential Solid Waste Collection Services*. In addition to these sources of information, the manager could deploy a benchmarking instrument to collect additional statistics on collection efficiency, staffing, levels of services, and cost of operations and maintenance, as well as overall customer costs.

Financial Analysis

Once you have gathered benchmarking data on other similar agencies, it is important to conduct a cost of service or rate study. A cost of service or rate study is an essential tool to help focus the critical and management issues facing your agency

or department (Exhibit 1). These studies help focus on possible budget cost savings and revenue enhancements.

Typically, these start with the following major work elements:

- Clearly-defined goals and objectives for the cost of service or rate study
- Evaluation of the agency's operating budget through examination of each budget line item and assumptions of future operating conditions and costs.
- Completion of a revenue sufficiency analysis that identifies the amount, timing, and financing source for required capital investments in the agency's long-term capital improvement plan.
- Analysis of current customer rate structures and development of alternative recommendations on rate modifications.

A pro forma model is typically constructed to help conduct various "what if" scenarios to analyze alternative customer rates and develop financial forecasts of the long-term outlook of the solid waste system. The very best models can seamlessly provide powerful representations of key financial indicators for decision-making. The reader is referred to the APWA manual on ratemaking, *Solid Waste Rate Setting and Financing Guide Analyzing Cost of Services and Designing Rates for Solid Waste Agencies*, which provides useful examples of how cost analysis can be used effectively for strategic planning.

Putting the Plan Together

Your agency's Strategic Business Plan should include all of the facets we discussed: the competitiveness scan and financial analysis. Unfortunately, most business plans prepared by both public and private sector organizations are static. That is, they exist as a

document developed for a particular purpose, shared with its staff and decision makers in print or electronic form, and then placed in a file cabinet or digital folder on the organization's intranet.

That being said, I urge my clients to develop a dynamic Strategic Business Plan that provides a highly usable road map to everyone in the organization. That is, a Strategic Business Plan goes beyond one-way informing and also communicates the plan by enabling a two-way, ongoing dialog to everyone in the agency. The plan should be shared with the agency's stakeholders such as its typical strategic partners such as other departments or divisions, major vendors, waste suppliers, and outside consultants. In this way, the plan reaches beyond your agency's walls and enables your strategic partners to help you achieve your desired results.

Lastly, the plan must continue to evolve and grow. By sharing it with your strategic partners and stakeholders, you are asking for dialogue and input. This kind of input enables the plan to be continually updated, refined and improved. This is in contrast to a traditional static Strategic Business Plan, mentioned earlier, which is sent out annually to staff with the expectation that they'll adapt to the plan rather than the plan adapting to them.

Final Thoughts

Strategic business planning takes a lot of hard work to develop a meaningful long-term game plan for your agency. Certainly business planning doesn't come free. It is a time-consuming exercise, and any agency head has to weigh the value that is generated from spending time writing a plan versus simply going out there and performing daily operations. Based on my experience, however, these efforts are worthwhile and can provide excellent financial road maps that will empower your agency to respond to their opportunities and potential threats more strategically.