

**Croatia**  
**HŽ Infrastruktura d.o.o.**

**Terms of Reference**

**Strategy 2020 - Assessment of Restructuring Potential of HŽ Infrastructure Ltd.**

***1. Background***

HŽI is the sole railway infrastructure management company in Croatia, tasked with the construction, maintenance and management of the railway network. HŽI services relating to access to the railway network are a derived demand – demand for the use of rail infrastructure is the result of demand by carriers that use the railway network (e.g. HŽ Putnički prijevoz d.o.o. and HŽ Cargo d.o.o., as well as other operators) who in turn, depend on demand from travelling passengers, shippers and logistics operators.

The number of train kilometres achieved on HŽI's rail network decreased from 24.1 million in 2012 to 20.3 million kilometres in 2014; in 2015, the number of train kilometres stabilized at 20.4 million. The number of train kilometres is forecast to decrease to 19.2 million train kilometres in 2016 due to a forecast of reduced train kilometres to be achieved by HŽ Putnički prijevoz d.o.o., following a decision to reduce the number of railway lines that it services. After 2016, the number of train kilometres to be achieved is forecast to increase to 22.7 million train kilometres in 2020.

Three Pan-European corridors pass through Croatia, which implies great transit potential. However, up until very recently, the investments into railway infrastructure took second place when compared with investments into road infrastructure, resulting in the railway network being in a generally poor condition. Consequently, when it comes to the transport of cargo and passengers in Croatia, the railway sector has become increasingly less competitive compared to the road sector.

Currently, the rail network generally provides far lower levels of speed and/or comfort compared to road transport:

- Low speed limits due to inferior technical parameters
- Only 5.2% of rail track allow a maximum speed of between 141 km/hour and 160 km/hour.
- Only 17.4% of rail tracks allow a maximum speed of above 100 km/hr.
- 35.5% of rail tracks have a maximum speed of below 60 km/hr.
- Low capacity of railways
- 90.3% of rail lines are single-track only.
- Outdated traffic control and signaling systems.
- Long distances between stations (with connection to traffic control it decreases capacity of the track sections).
- Poor condition of rail infrastructure
- Sections connecting ports (large gradient).
- Lack of maintenance of existing railway system.
- Outdated infrastructure and catenary system.

- Outdated traffic control and signal systems having a direct impact on traffic capacity and competitiveness of the railways as a transport subsystem.

HŽI has a few main sources of financing:

**A. Revenues for covering operational costs of traffic regulation, maintaining and managing the company:**

- 1) state budget funds
- 2) HŽI revenues from access to the railway network and other services to network operators

**B. Funds for railway network investments :**

- 1) State guarantee loans for railway network investments
- 2) EU funds for railway network investments eligible for EU financing

HŽI sales revenue comprises only a small part of overall HŽI operating revenue. In 2014, the total sales revenue was HRK 215.7 million and HRK 209.3 million in 2015. Transfers from the state budget totalled HRK 956.0 million and accounted for 71.5% of total operating revenue in 2015. Employee expenses accounted for 55.0% of total operating expense in 2015 – the average number of employees in 2015 was 5,063.

From 2012 to 2014, EBIT and EBITDA were negative while in 2014, HŽI generated a small pre-tax profit of HRK 157 thousand; in 2015 pre-tax profit was HRK 10.9 million. As of December 2015, non-current assets comprised 91.7% of total HŽI assets.

Since the annual budget for HŽI has been reduced in 2016 by HRK 62 million and due to a clear need to reduce the deficit at the national level, HZ Infrastructure has very limited access to state guarantee loans for investment financing when comparing to previous years. Given these facts, the business model of HŽI has become unsustainable and significant changes need to be made regarding the operating model and cost structure in order to ensure business continuity and to improve company performance in the following years.

## ***2. Objective of the Consultancy Services***

Restructuring would involve organizational changes and, even more importantly, changes in the core business (investments, maintaining business and traffic management) in order to become more efficient and, consequently, improve our operational and financial performance. The final goal of the restructuring process is to reduce operating costs and to redirect part of the state budget funds (for maintaining and traffic) to the investments component and thus reduce the need for future borrowing for the purposes of investment financing.

Several elements which can have a big impact in operating and investment costs depend on the government of Croatia's decisions (definition of the network including closing of lines, service standards to be maintained by HZ Infrastructure on its network). The proposed assignment will focus on the elements of reorganization and restructuring of the company which are directly under the control of the company, but will also make proposals in the areas that may require decisions from the government.

In line with this, the Consultant should prepare a detailed plan of restructuring with clearly defined and described measures, a time schedule for implementation of the mentioned measures (including

these that require approval or decisions beyond the company) and identified savings, which arise from a specific measure. A restructuring plan will present a basis for further implementation in the restructuring process.

The goal of drafting a restructuring plan is to identify potential savings in operational business in order to redirect funds to investments in railway infrastructure and in this way to improve the network condition. Within the restructuring plan, it is also necessary to define priority investment projects on sections, which have the greatest potential for traffic increase, and if realized, significant improvements on the network will be achieved.

### ***3. Tasks to be performed by the Consultant***

Objective and independent top-down assessment of the situation and development of pragmatic recommendations for effective restructuring in stated areas:

#### **I. Re-organization**

- a. assess current organization structure and coverage and propose organizational improvement and, if needed, HR restructuring in detail per proposed org. structure throughout the following period

To be included:

Analysis:

- of existing organizational structure down to micro-organizational level (including systematization i.e. proscribed number of employees per work place)
- of existing FTEs/ HC per organizational structure and business processes, and within this what is defined/imposed by norms beyond the company (e.g. EU, government) and what is defined by company rules
- of existing span of control
- of existing job systematization (work positions including conditions and number of employees)
- of existing workforce structure (age, competencies, fluctuation et al)
- of existing type of work contracts
- of compensation (payroll) system
- of personnel budget

Definitions and proposals:

- for new organizational structure down to micro level (taking into consideration proposal for new organizational structure made by HŽI team in July 2016)
- for new job systematization (work positions & number of employees) per new organizational structure, FTEs/ HC per organizational structure and business processes (based on benchmark with best-practice companies in the industry/ sector. When changes in company or government norms would be required this would be highlighted. EU or international rules should not be touched)
- for personnel restructuring (if needed, also rightsizing per new proposed organizational structure and business processes, following new proposed job systematization) throughout the following period of 5 years including:
  - in detail - measures that should be taken where needed as prerequisite for rightsizing

- defined business reasons in detail for restructuring/ rightsizing
- taking into account the existing workforce structure, as well legal and internal acts related conditions for restructuring/ rightsizing
- for competences and qualifications needed per defined new job systematization (workplaces)
- for compensations per new job systematization (all work positions) based on the positions' evaluations and benchmarking, as well taking into consideration legal and internal acts conditions
- for new work contracts
- for performance-based management system
- for project based compensation system
- for personnel budget
- for new compensation/ payroll system
- for managers' positions based on the positions' evaluations

## **II. Cost optimization**

- a. identify biggest levers for cost optimization with focus on:
  - Optimization of network, traffic control and maintenance cost (including materials, third party services and internal costs)
  - Optimization of cost of investments (including materials, third party services and internal costs) and reduction of investments that are not priority and will not have significant impact on the improvement of the network
  - Benchmark personnel and administrative cost with best-practice companies and propose rightsizing (briefly described in task I. Re-organization)
  - Review IT cost and investigate potential for IT investment to improve processes and reduce other related costs
- b. review real estate portfolio and P&L and identify potential strategic options

## **III. Operations**

- a. top-down assessment of operations optimization potential and developing improvement initiatives to increase efficiency (including traffic regulation and maintenance services)

## **IV. Pricing strategy**

- a. review current pricing strategy for non-state revenues if applicable/needed

## **V. Norms and regulation**

- a. high-level review of Company norms and regulations
- b. identify levers to simplify processes and optimize cost

## **VI. Business strategy**

- a. review the current business plan (including high level review of CapEx and OpEx)
- b. assess potential investments with timeline for the implementation
- c. propose high-level strategic options for daughter companies and non-core businesses

## **VII. Overall restructuring plan and financial impact**

- a. develop overall restructuring plan to make the company profitable and less dependent on state budget funds and new loans
- b. project financial impact of all identified and proposed initiatives for the following 5 years

### ***4. Execution of the Consultancy services***

#### **4.1. General organization**

The Consultant will report to a Steering Committee composed of representatives of the MMATI, and HŽ Infrastruktura. All reports will also be submitted to the review of the World Bank. The working language of the Consultant will be Croatian, and reports will be written in Croatian and English.

#### **4.2. Logistic and timing**

The services will be carried out in Zagreb and in the field, including visits to facilities and main routes if needed. The Client will ensure the logistic support for the Consultant during its contract.

It is expected that the Consultant would start its services after the signing of the Consultancy Contract. The duration of the Contract is estimated at 6 months.

#### **4.3. Required expertise**

Interested Consultants should provide information demonstrating that they have the required qualifications and relevant experience to perform the Services. The shortlist criteria are:

- 1) Company profile, organization and staffing – global presence and experience in railway sector are required
- 2) Details of experience or similar assignments undertaken in the previous ten years. Qualification requirements that have to be met by every interested Consultant in order to participate in the tender are as follows:
  - Expertise
    - Consultant has to show expertise in operational and strategic restructuring and transformation of railway companies in Europe, minimum 1, more than that is an advantage
    - Consultant has to show expertise in operational and strategic restructuring and transformation of large companies in Croatia, minimum 1, more than that is an advantage
  - Local presence and language requirements – Local office based in Croatia with at least 3 consultants speaking the Croatian language
- 3) Confirmation of availability of Key Experts with the required qualifications as indicated:

- Project Manager (speaking the local language with extensive restructuring experience for large companies in Croatia)
- Project team (where at least 2 other persons speak Croatian and have relevant experience in restructuring)
- Technical experts (who have significant expertise in restructuring of major railway companies in Europe and may spend at least 1 full working day per week in HŽI)

A list of major assignments on provided services which are by type and quantity comparable to the activities which are the object of this EoI and which were provided in the last 10 years [and indicate from which year to which year]

#### **4.4. Assignment Administrative Arrangements and Deliverables**

The client of this TA is HŽ Infrastruktura.

The consultant will prepare final restructuring plan as described in the above task descriptions in English and Croatian, and will additionally make these reports available electronically. All hard copy reports will be sent to the Client for further distribution to the key stakeholders including the World Bank.

The Consultant shall organize weekly review, progress and coordination meetings with the Client's key contact points in charge of implementing the results of the consultancy services and bi-monthly meetings with the Steering Committee presenting the findings, the proposed solutions, and the scheduling of the next activities.

#### **4.5. Assignment Location**

The assignment location is Zagreb, Croatia. Some work of the consultant team may be provided at home offices of the team with the consent of the Client.

#### **4.6. Resources Provided by the Client:**

(a) Relevant Studies:

- Operational analyses and information developed by HŽI relevant for the assignment

(b) The following resources will be provided by the Client:

- Suitable Office Space. The Client will provide adequate office space and furniture for the consultant team.
- Local Telephone Access. The Client will provide the consultant with local telephone and internet service in the office.

#### **4.7. Resources provided by the Consultant:**

- Computers and Printers for Own Use and Report Production. The consultant will provide all required computers and printers for their own use and all report production.

- Translators/Interpreters. The Consultant will provide all interpreters and/or translators that might be required to undertake the assignment.