Terms of Reference

TECHNICAL AND BUSINESS RATIONALIZATION

OF HZ INFRASTRUKTURA d.o.o.

Project: "Sustainable Croatian Railways in Europe Project" (SUCRE)

IBRD Loan No. 8500-HR

Method of selection: Quality and Cost_Based Selection (QCBS)

Estimated value: 250,000.00 EUR

Background

The Government of Croatia, in line with the transport policy objectives defined in National Transport Strategy and National Development Strategy, intends to: (i) improve the operational and financial efficiency of the railway sector; (ii) increase public investment in the maintenance and modernization of critical railway infrastructure; (iii) redefine the scope of services for the better efficiency of the railway system; and (iv) improve coordination and planning functions across the transport sector.

A total length of approximately 2.617 km of the railway network, 536 stations and stops, 1499 level crossings, 109 tunnels, and 544 bridges are managed by the HZI Infrastructure (HZI). HZI is responsible for traffic management, construction, rehabilitation, and maintenance of the railway network. The routine maintenance is performed by the subsidiary Pruzne Gradjevine. The Government has decided to separate Pruzne Gradjevine, with the objective of optimizing business processes and reducing the overall expenses.

Obsolete rail infrastructure has the effect of unreliability in the execution of transport services. Currently, low speeds on the Croatian railway network do not enable efficient use of passenger and freight fleets. The share of rail passenger transport use is less than half the normal level in other Western European countries. Statistics show that there is a market potential for the revitalization of the railway sector, but a significant increase in the quality of services and competitiveness is required vis-a-vis other transport modalities.

In the context of the World Bank-financed, SUCRE Project consulting services are foreseen that will benefit the railway sector in general. An "Assessment of the Restructuring Potential of HZ Infrastruktura" ("McKinsey study") was concluded in 2016. Deliverable included a top-down assessment and recommendations for restructuring in selected areas.

In order to provide continuity to the McKinsey study, a consultancy for the technical and business rationalization of HZI. This is needed in order to establish an optimal Action Plan to rationalize HZI, focusing primarily on its infrastructure maintenance and traffic management activities.

1. Objective of the assignment

The main objective of the assignment is to develop a Detailed Restructuring Action Plan and Labor Restructuring Plan based on HZI's business plan, strategy, and planned investments to achieve improvements in the technical and business efficiency and effectiveness of HZI. The restructuring Plan shall include organizational changes with a specific focus on traffic management and maintenance, reduction of technical units and rationalization of the administrative activities, innovation and utilization of ICT, and environmental impact. These improvements will be based on modern management features and the notion of levels of service – including safety, comfort, speed, etc. – and are expected to lead to a significant reduction of staffing needs, following a careful review of functional needs. A set of Key Performance Indicators (KPIs) measuring operational and business performance shall be defined.

For the purpose of the assignment, the consultant shall use McKinsey study findings and refer to all the relevant national and EU legal framework (i.e., the Plans, Regulations of the Republic of Croatia related to railways and railway services market, Railway Act, Sector Policy Letter, Decision on accepting modernization and restructuring of the railway sector, Transport Development Strategy of the Republic of Croatia from 2017 to 2030).

Scope of work

In order to develop the final deliverable: Restructuring and Labor Action Plans, the Consultant shall address the following areas of improvement:

Task 1: Assessment and identification of realignment needs in the current organizational structure

- Analysis of the organizational structure to micro-level
- Analysis of the staffing levels (structure, capacity, fluctuation) and identification of key expertise bottlenecks
- Analysis of the existing type of labor contracts
- Analysis of the current performance management
- Analysis of industrial relations and dialogue
- Analysis of the utilization of ICT
- Analysis of the legal requirements and binding agreements on restructuring
- Calculation of potential costs of retrenchment
- Comparison to other international examples
- Absorption capacity to implement future infrastructure investments
- Analysis of health and safety performance in the HZI labor force

Outputs of this task: (i) gap identification of current organization structure, (ii) proposal of the new organizational structure; (iii) proposal for the new job systematization (organization charter but no job description) according to a new structure; and (iv) conclusion on the labor restructuring process.

Task 2: Company business planning practices

- Overview of the business plan
- Detailed characteristics of the business plan
- Business planning recommendations

- Recommended set of business goals for HZI. A set of business goals should summarize targets to be achieved in a certain period (until the end of a current business plan or for 5 years). Examples are improvement of monitoring and deviation analysis in the business planning procedures, review and update maintenance practices/standards, the introduction of KPIs, increasing the maximum value of sub-contracts, etc.
- Overview of the financial structure and performance, and identification of opportunities for financial management strengthening
- Peer group analysis (benchmarking against similar railways)

Outputs of this task: (i) list of business planning recommendations and set of business goals.

Task 3: Railway maintenance

- Overview of the routine maintenance planning and scheduling for tracks, stations and stops, level crossings, tunnels, and bridges
- Use of rail asset management system and concepts throughout the organization's operations, planning, and budgeting processes (i.e., financial management, budgeting, labor force planning, contract planning, legal relationship with the Government, etc)
- Staffing levels, equipment, supervision, and quality
- Maintenance operations efficiency
- Proposals to increase effectiveness and efficiency

Outputs of this task: **(i**) set of recommendations, detailed implementation plan of measures and activities and estimated time frame to improve maintenance planning, scheduling, and efficiency

Task 4: Traffic management

- Legal requirements (EU directives that impact traffic management)
- Identification of ways that traffic management will have to evolve in order for rail infrastructure to meet future market and customer needs
- Assessment and optimization of the traffic control
- Staffing levels
- Optimize service coverage of the network
- Optimize the number and size of maneuvering and shunting locations
- Proposals to increase traffic management operations efficiency
- Reducing the operational costs of traffic management
- Optimization of IT processes
- Micro organization of the work at the stations
- Categorization of the stations

Outputs if this task: (i) set of recommendations, detailed implementation plan of measures and activities, and estimated time frame to optimize traffic management operations efficiency

Task 5: Company management, administration, and overhead expenses

- Overview of company management, administration, and overhead expenses
    - Governance and relationship of management with company owners

- Identification of key optimization areas
- Key general and administrative function related inefficiencies and optimization opportunities
    - Autonomy and ability of HZI to make short, medium, and long-term decisions to optimize performance

Outputs of this task: Set of recommended optimization activities

Task 6: Innovation and utilization of ICT

- The current status of innovation and utilization of ICT, European Railway Traffic Management System (ERTMS) and Intelligent railway System (IRS) in Croatia
- Identification of chokepoints for further use of technology as a way to increase efficiency and improve service

Outputs of this task: Proposed recommendations for modernizing this area

Task 7: Project Management

- Review the project cycle and propose measures for more efficient project management
- Review of project teams and suggestions for improvements (composition of the project team, roles)
- Revision of contracts for services/works/goods, suggestions and steps for improvement, in order to more efficiently implementation of infrastructure projects
- Review contract management practices and identify improvements
- Review procurement practices, identify improvements, order of the recommended process, potential reduction of time
- Management of human resources and work, including remuneration policy, career development system, planning, and evaluation of work in accordance with the planned modernization
- Analysis of the legislative and institutional framework, the implementation plan of measures and activities, in order to reduce administrative and institutional barriers for more efficient management of projects related to railway infrastructure

Final report is to include the outputs from each of the tasks above in the form of chapters, in English and Croatian language.

Annexes will consist of the Restructuring and Labor plans (Croatian and English)

Annexes

- **Annex 1 (Restructuring Action Plan)** should summarize the proposals put forward under each of the tasks into a time-based Restructuring Action Plan and provide, an estimated time frame for implementation indicative budgets for those actions where additional costs will be incurred. Recommendations should be made in respect of the strategic, tactical, and operational business goals and objectives – in English and Croatian language
- **Annex 2 (Labor Plan)** will outline considerations and actions for potential labor restructuring within HZI by (i) summarizing the specific implications for labor restructuring associated with recommendations under each of the tasks; (ii) outlining a number of distinct pathways by which

labor restructuring objectives might be achieved and the advantages and disadvantages of each, and (iii) recommend a process to be taken to achieve any future restructuring. – in English and Croatian language

2. Milestones and Deliverables

Deliverables	Percentage of Total Payment	Weeks from Contract Signing
Inception report	10 percent	2 weeks
Task 1		7 weeks
Task 2		12 weeks
Task 3		16 weeks
Task 4		20 weeks
Task 5		23 weeks
Task 6		26 weeks
Task 7		29 weeks
Annex 1	20 percent	34 weeks
Annex 2	20 percent	36 weeks
Final Report	50 percent	40 weeks

Workshop reports:
Workshop 1 – Tasks 1 to 3
Workshop 2 – Tasks 4 to 7
Workshop 3 – Annex 1 and 2
Workshop – Final Report

3. Duration

The expected duration of the assignment is **10 months.**

4. Required qualifications

It is expected that this project will require a team of consultants, involving construction, traffic, business operations, and other experts covering the following range of skill sets and comprising of local and international consultants.

The working language of the consultant will be Croatian, and Consultant will provide all interpreters and/or translators that might be required to undertake the assignment.

4.1. Details on required company's capabilities requirements:

Firms (or joint ventures of firms) should be experienced in providing consulting services, with at least three [3] projects or more in the last ten [10] years in EU countries, related to all of the following:

- Global presence and experience in railway sector are required
- Business organization / operational restructuring including optimization of technical and administrative processes and functions, including the development of operational efficiency and cost rationalization measures
- Railway maintenance and operation (traffic management)
- Analysis of the out-sourcing potential for business processes and functions
- HR competencies and development of management capacity/change management, including provision of training
- Experience in SOE restructuring

The reference value of each project must be at least 80 percent of the contract value.

(Preferential advantage: experience with projects in more countries, experience with state owned infrastructure companies, more projects concerning railway maintenance operations, more project in business organization and/or operational restructuring, change management experience, provision of training)

4.2. Details on required personal capabilities requirements:

Core team (where at least 2 persons speak Croatian)

- Team Leader with at least 10 years' experience in business consulting including experience in operational restructuring projects in the railway /infrastructure sector, speaking the local language
- Civil engineer with at least 7 years' experience in railway maintenance/construction respectively
- Traffic engineer with at least 7 years' experience in railway traffic management/safety
- Business analyst with at least 7 years' experience in relevant business operations (railway contractor and/or railway managing authority)
- Legal expert with at least 7 years' experience in public sector restructuring

Support expertise

- Quality assurance engineer with at least 7 years' experience
- Environmental specialist (7 years overall experience)
- Work organization specialist (7 years overall experience)

Assignment location

The assignment location is Zagreb, Croatia. The services will be carried out in Zagreb and in the field, including visits to facilities and main routes if needed.

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.