

Terms of Reference

RESTRUCTURING AND RATIONALIZATION OF CROATIAN ROADS (HC)

Project MARS: "Modernization and Restructuring of the Road Sector" IBRD Loan No. 8749-HR

1. Background

The *Modernization and Restructuring of the Road Sector* World Bank project (MARS) aims to support the Croatian Government in enhancing operational efficiency and improving financial sustainability of the road sector. The project contains an investment loan portion to be used for the restructuring of road management companies Hrvatske ceste (Croatian Roads - HC), Hrvatske autoceste (HAC) and Autocesta Rijeka Zagreb (ARZ). The state road network (approximately 7000 km of roads) is being managed by HC, public limited liability company.

Consultant services will be required for (i) performing a review of institutional and organizational aspects of HC and (ii) recommending measures and actions to reduce costs and increase the company's efficiency. Consulting services covered by this Terms of Reference are to be performed as the second stage of the two-staged process. The initial part, or the first stage comprises of consultancy covering the corporate governance and organizational restructuring, while the second stage, the subject of this ToR should focus on measures aimed at increase of HC operational efficiency.

Scope of business activities of HC - Croatian Roads is defined by the *Roads Act* and its by-laws, such as *Ordinance on Maintenance of Public Roads* and other legal documents. According to the Road's Act, Article 82, HC is mandated to perform and organize following business activities:

- Preparation of four-year programs of construction and maintenance of state roads, county roads and local roads,
- Construction and reconstruction of state roads,
- Resolving land property required for the construction, reconstruction and maintenance of roads,
- Maintenance of state roads,
- Other road management operations,
- The financing of road construction and reconstruction,
- Monitoring the traffic load and traffic flow on public roads,
- Other activities.

The organizational structure of HC comprises 6 Divisions:

- Division for Development and Strategic Planning
- Division for construction and reconstruction
- Division for maintenance and traffic
- Division of economic affairs
- Division for legal affairs, human resources and general affairs
- Division of EU projects and programs

+ 6 regional Business units.

According to Roads Act – Article 19, Ministry of the Sea, Transport and Infrastructure (MSTI) is in charge for technical and technological unity of the public road system. Nevertheless, the Ministry can delegate to HC certain authorities in maintaining technical and technological unity of the public road system. This possibility was not used officially in last decade, except for the Road Data Base, which should be maintained by HC for whole road sector, according to Ordinance on Road Data Base. However, the MSTI occasionally requires HC to perform some tasks of national importance, such as urgent measures following natural disasters (procurement of works for urgent rehabilitation following floods or landslides).

Some tasks of HC require close relationship with the County Road Authorities (ŽUC) and institutions of local self-government as well as cooperation in the management of the network of county and local roads (tasks such as planning or cooperation in winter maintenance organization).

The restructuring process being implemented by Croatian Roads (HC), which has started in 2014, has the decentralization of operative functions as the main goal. The intention was to reassign most of the operative functions from the headquarters to the regional Business units. Restructuring activities performed by HC should be supplemented by other proposals and measures.

The MARS project has developed several proposals which are directly or indirectly related to HC operations. Work on MARS project is divided among 9 Working groups (WG).

WG 9, which was assigned the task titled *Operational restructuring of HC* has produced several reports, presenting, among other topics, measures to be performed in order to increase the efficiency of the state roads management system. The main task is to make proposals for improvement of the state road maintenance, including reduction / removal of barriers for increased private sector participation on a fully competitive basis. In order to do so, it was proposed to split procurement process for routine maintenance of state roads into smaller value contracts in order to attract wider competition. Possibilities for performance-based contracting are also being explored following the *Pilot Project Performance Based Road Maintenance on State Roads in Istria* which was introduced in 2014. WG 9 also discussed some options for improvements in regular road maintenance legislation and organization, and for joint or parallel procurement with ZUCs.

WG 1 is working on the technical classification of the entire road network, definition of maintenance standards and development of the Road Asset Management System (RAMS). The reports produced by this WG should be taken into consideration while developing HC restructuring proposals; the same is true for all relevant reports of other working groups and especially WG 8 reports on Human Resource Management.

For assistance in Human Resources (HR) management area, a separate consultancy is contracted in MARS project – HR consultancy – that will provide preliminary findings and further assistance.

2. Objectives of the assignment

The consultancy for Restructuring and rationalization of Croatian Roads (HC) is inherently divided into two stages, which are procured independently. Stage one of the consultancy has been organized, procured and financed by HC, focusing on improvements in corporate governance and the organizational restructuring. The objective of this consultancy belongs to stage two, focused on rationalization and implementation of reorganization measures.

This assignment will be implemented as a part of the MARS project, focusing on increase of HC's operational efficiency and improvements in cost-controlling. Some of the measures and actions proposed in stage one shall be considered and further developed where appropriate in stage two of the consultancy (this assignment). However, the consultant for stage two is encouraged to present independent critical opinion on all conclusions of previous consultancies.

The detailed requirements are presented in the Scope of Services and will be subject to working consultations with HC, acting as the Client.

The main goal of the assignment is to identify areas for improvement and then develop proposals for measures that would lead to rationalizing HC operations in various areas including business planning processes, maintenance contracting and monitoring, project management and cost control and to incorporate these elements in new proposal of main company act, Rulebook on Internal Organization.

Starting point for the assignment should be analysis of legal mandate of HC, as defined by Road's Act and its bylaws. Basic question to be answered is whether the current and/or proposed HC organisational structure enables efficient performance of all work processes performed by the company or processes that should be performed by the company according to legal regulations. Consultant will analyze current laws and bylaws that effect company's organization and if necessary propose their adjustments. Proposals to be made by the consultant should lead towards increase in efficiency in following regulations. The results of the stage one consultancy should be considered during the development of the proposals.

The consultancy should analyse how the regional units will be managed, so that all parts of HC are monitored and evaluated against comparable performance standards and KPIs. The current practice of HC is to contract routine maintenance for the entire state roads network in single procurement. Besides separating this contracting into region based contracting, the possibilities of joint procurement of routine maintenance works for all public roads (including county and local roads governed by ŽUC) in any particular region should be examined and alternative solutions proposed.

The consultancy should evaluate results and conclusions based on experience about performance-based routine maintenance contracting (*Pilot Project Performance Based Road Maintenance on State Roads in Istria*) conducted by HC and determine possible impact of wider use of performance-based maintenance contracts on HC functions, especially on personnel and activities.

The consultancy should also analyse procedures (methodologies) of capital investment planning and the process of application for and usage of EU funds, with attention to risk management. Certain changes in and improvements to quality management systems should also be considered and proposed.

All other business processes should be examined and improvement measures proposed, where appropriate. The consultant should propose a set of KPI's which would enable MSTI and the HC management to monitor and evaluate the progress of restructuring.

3. Scope of consultant services

The consultant's tasks will include, but will not be limited to:

a) Current organization/operations status

The first task is to review current HC organization and resources, especially regarding:

- (i) business processes and operational practices,
- (ii) organizational structure, using findings/deliverables of stage one consultancy,
- (iii) HR potential, using findings/deliverables of HR consultancy,
- (iv) IT support,
- (v) procurement and contracting,
- (vi) operating costs,

identifying areas for efficiency improvement, with respect to relevant conclusions and decisions derived from the MARS project. Attention should be paid to regional organization of HC (business units) and other institutional changes proposed or recently introduced.

b) Legal framework

The consultancy should (i) review the legal framework and HC legal mandate and to (ii) make recommendations for re-definition (if needed) of the role of HC as the company which assists the MSTI in managing issues affecting the road sector as a whole (road data base, asset management system, planning and reporting, EU projects preparation, axle weight control, etc)

c) Road maintenance contracting

In reviewing business processes, special attention is to be directed to road maintenance. The spectrum of options for procurement and contracting of routine and periodic maintenance of non-tolled public roads (of all categories) that were proposed in course of work of WG 9 should be assessed and recommendations proposed as appropriate. Realistic achievable measures for improvements in procurement and contracting environment are to be proposed, in accordance with actual Law on public procurement. The proposals should aim towards the widening of competition (opening the market for new contractors).

Further steps towards a wider usage of performance-based maintenance contracting should be proposed, based on the evaluation of the results of the pilot project (*Pilot Project Performance Based Road Maintenance on State Roads in Istria*).

d) Capital investment planning and implementation

Changes in the capital investment planning and implementation procedures should be proposed, focused on the improvement of working procedures, HR potentials and IT support, with special attention to the usage of EU funds. Short and medium-term measures should be proposed aiming to reduce costs and increase the operational efficiency.

e) Detailed organizational units and work break-down structure

Following the analysis of current operations, proposals for improvements and concept of organizational restructuring provided in stage one, consultant should develop governance of company's each organizational units and detailed work break-down structure using results of HR consultancy.

f) Cost monitoring and control

Reorganization and restructuring recommendations shall be followed by a set of measures which would define KPI's, as well as cost monitoring and control procedures. Recommendations concerning the application of IT tools should be made as appropriate.

g) Introduction of KPIs

The consultancy should, using results of stage one consultancy, propose a set of KPIs, which would enable MSTI and HC Management to effectively monitor and evaluate HC.

h) Action plan

The consultancy should develop an Action plan for the implementation of HC restructuring process, showing the time and cost aspects of all proposed activities.

4. Deliverables

The following deliverables are required:

1. Inception report: Current organization/operations status description and legal framework
 - Tasks a) and b), to be completed and discussed – agreed with the Client within 3 months from the beginning of the assignment.
2. Operations – proposals, measures and KPI's
 - Tasks c), d) and f) should be completed and agreed with the Client within 6 months from the beginning of the assignment.
3. Organizational units and work break-down structure
 - Task e) should be completed within 8 months from the beginning of the assignment.
4. Introduction of KPIs
 - Task g) should be completed within 8 months from the beginning of the assignment.
5. Action plan
 - Task h) should be completed within 9 months from the beginning of the assignment.
6. Final Report (draft)
 - Summarizing all previous deliverables with due recommendations and conclusions should be delivered 10 months from the beginning of the assignment.

The approval of Final report will be done during the last month of the assignment.

5. Required qualifications

It is expected that this project will require a team of consultants, involving civil engineering, business operation, economy and other experts covering the following range of skill sets and comprising of international and/or local consultants.

5.1. Details on required company's capabilities requirements:

Firms (or joint ventures of firms) should be experienced in providing consulting services, with at least one [1] project or more in the last ten [10] years in European countries, related to all of the following:

- business organization / operational restructuring including optimization of technical and administrative processes and functions, including development of operational efficiency and cost rationalization measures for a company in charge of road or motorway management
- road maintenance and operation, including winter maintenance
- development of management capacity / change management, including provision of training

5.2. Details on required personal capabilities requirements:

- Team Leader with university degree in technical or social sciences with at least 10 years' experience in business consulting including experience in operational restructuring projects, preferably with experience in road sector.
- Engineer with at least 10 years' experience in road maintenance / construction respectively.
- Economist with at least 7 years' experience, preferably with experience in road sector in consulting of state-owned companies.
- Legal expert with at least 7 years' experience in public sector restructuring

The Consultant shall ensure that experts are adequately supported and equipped. It shall ensure that there is sufficient administrative, secretarial and interpreting provision to enable experts to concentrate on their primary responsibilities.

6. Duration

Expected overall duration of the assignment is 11 months.

7. Language

All deliverables shall be provided in English and Croatian.