



# HIGHLANDS AND ISLANDS AIRPORTS LIMITED

## ANNUAL PROCUREMENT REPORT 2017/18

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## Introduction

Highlands and Islands Airports Limited (HIAL) is subject to The Procurement Reform (Scotland) Act 2014 and as such is required to publish an Annual Procurement Report to inform stakeholders on performance and achievements in delivering our previously published Procurement Strategy. The HIAL Procurement Strategy set out how we intend our procurement activity to deliver value for money and contribute to the achievement of organisational and broader aims and objectives.

This Annual Report covers the period from the publication of the Procurement Strategy to the end of the most recent financial year, i.e. 1 January 2017 to 31 March 2018, and reports only on Regulated Procurements.

Regulated Procurements are those exercises that fall within the thresholds for the various Procurement Regulations to apply:

	Threshold for Application of Regulations	
	Goods and Services	Works
Procurement (Scotland) Regulations 2016	£50,000	£2,000,000
Public Contracts (Scotland) Regulations 2015	£164,176	£4,104,394
Public Utilities (Scotland) Regulations 2016	£328,352	£4,104,394
Concession Contracts (Scotland) Regulations 2016	£4,216,945	£4,216,945

The HIAL Procurement Strategy 2017-2020 set out the high-level strategic direction for the Procurement function in delivering the company's corporate economic and operational objectives. The focus of the Strategy is on embedding best value and commercial processes within airport operational activities to drive and support sustainable economic growth, both for the HIAL business and the communities we serve.

## Section 1 - Summary of Regulated Procurements Completed

The Act requires the Annual Report to show a summary of the regulated procurements completed during the reporting period. The aim is to demonstrate transparency in our approach to public procurements and highlight the procurement activity during the course of the year.

Summary of HIAL procurement activities from 1 January 2017 to 31 March 2018:

Total Procurement Spend (all Contracts and POs, Capital and Revenue)	£22,440,418
Total Capital Procurement Spend	£9,319,347
Total Revenue Procurement Spend	£13,121,071

Total Procurements Completed (Regulated and Non-Regulated)	65
Total Procurements Completed Value	£12,295,129

Total Regulated Procurements	15
Total Regulated Procurements Value	£6,897,089

Number of Non-Competitive Awards	7
Number of Regulated Tender Exercises	4
Number of Call-Offs from HIAL or Collaborative Frameworks	3
Number of Quotations	1

Number of UK Supplier Contract Awards	14
Number of SME Supplier Contract Awards	5
Number of Scottish SME Suppliers Contract Awards	4

Summary of each individual regulated procurement completed during the reporting period:

Contract Title	Airport	Total Value	Award Date	Start Date	End Date	Supplier Name
Infrastructure Professional Services - Lot 1	Corporate	£ 2,400,000	29-Sep-17	15-Dec-17	14-Dec-23	Jacobs UK Ltd
Infrastructure Professional Services - Lot 2	Corporate	£ 1,800,000	29-Sep-17	19-Feb-18	18-Feb-24	Turner & Townsend Project Management L
Radar Data Processor Replacement	Inverness	£ 520,090	31-Oct-17	20-Nov-17	19-Nov-27	Indra Navia AS
Supply Met Equipment (INV, WIC, KOI)	Corporate	£ 514,378	20-Feb-18	01-Mar-18	31-May-19	Muir Matheson Aviation Ltd
Supply Met Equipment (BEB, SYY)	Corporate	£ 365,558	27-Jun-17	27-Jun-17	30-Mar-18	Muir Matheson Aviation Ltd
CUTE CUSS	Inverness	£ 354,840	19-Feb-18	19-Feb-18	18-Feb-23	ESP Global Services Limited
Vehicle Parts and Consumables	Corporate	£ 285,000	15-Jan-18	01-May-18	30-Apr-21	Dingbro Limited
Website Booking Platform	Corporate	£ 160,695	29-Mar-18	01-Jun-18	31-May-23	Airport Direct Travel Ltd (Rezcom)
Internal Audit Services	Corporate	£ 90,000	15-Dec-17	01-Jan-18	31-Dec-20	Wylie & Bisset
Asset Management Software Licence	Corporate	£ 84,000	29-Sep-17	01-Feb-18	29-Jan-24	Jacobs UK Ltd
Advertising Equipment and Support	Inverness	£ 80,179	21-Mar-18	29-May-18	28-May-19	Eye Airports
Modular Building	Inverness	£ 67,506	17-Mar-17	25-Mar-17	30-Apr-17	Wernick Refurbished Buildings
Car Park Extension	Inverness	£ 65,043	23-Jan-17	23-Jan-17	31-Dec-17	Perfect Circle JV Ltd
Lifting Equipment Inspection	Corporate	£ 55,800	16-Oct-17	01-May-18	30-Apr-21	Inspection Network Limited
Interim HR Director Services	Corporate	£ 54,000	12-Jun-17	19-Jun-17	30-Dec-17	Hunter Adams Limited

## Section 2 - Review of Regulated Procurements Compliance

The Act makes it mandatory for regulated procurements to be carried out in accordance with our Procurement Strategy. Where this has not been the case, the Annual Report should set out the extent of non-compliance and measures to ensure that future regulated procurements do comply.

The initial HIAL Procurement Strategy focussed on internal procurement functions and processes to build robust foundations for the company to achieve its corporate strategic objectives. The HIAL Procurement Strategic Objectives are attached at **Annex A** and cover key business drivers:

- Statutory and Regulatory Compliance
- Economic Challenges
- Effective Utilisation of Resource
- Sustainability.

### 1. Statutory and Regulatory Compliance

*Areas of Compliance with Procurement Strategy:*

- The budget holder or their representative were actively involved in all 15 regulated procurements and all were aware of public procurement Regulations.
- One of these procurements was to re-let an expired contract rather than over-extending.

*Non-Compliance with Procurement Strategy:*

- Seven of the 15 procurements were Non-Competitive Awards (NCA). Two of these NCA procurements were directly awarded to sole suppliers due to technical inter-operability.

*Measures to Improve Compliance:*

- New project planning process has been implemented to reduce the bottle-neck of procurements at year end.
- Improved approval and governance regime linked to project management and procurement strategy approval by a Business Case Review Panel.

### 2. Economic Challenges

*Areas of Compliance with Procurement Strategy:*

- Three procurements used national collaborative Framework Agreements that saved resource through the procurement process and will bring cash savings from discounted prices. Utilising Scottish Government Frameworks achieved savings benefits of £108k in the period on £1.5m spend (7.2%).
- A collaborative Framework was used to secure a contract for goods that will provide standardisation of quality and service, cash savings, online ordering, management information, and a reduction in the number of suppliers from around 20 to 1, providing transactional efficiencies.
- Four procurements were tendered; all using e-procurement tools including the Public Contract Scotland portal to ensure the process was transparent with equal treatment throughout. The tender documents used standard templates containing clear language to ensure a common understanding and to reduce barriers for participation.
- Staff members participated in pre-tender market and stakeholder consultation on two of the regulated tenders, which provided a greatly improved specification.
- Each of the 15 procurements ended in a comprehensive and relevant contracts being agreed.
- Eleven of the 15 contracts were allocated a named Contract Manager to undertake contract and supplier management activities.

*Non-Compliance with Procurement Strategy:*

- HIAL's policy is to pay suppliers within the statutory 30 days. The system is unable to report on individual payment periods in respect of the procurements relevant to this report.
- Ten of the procurements were not subsequently subject to proactive contract and supplier management.

*Measures to Improve Compliance:*

- Improved financial reporting and management information as part of the scope to upgrade the HIAL financial system in 2018/19.
- Contract and Supplier Management process to be developed and implemented throughout the organisation on a proportional basis to drive performance and quality services.

### **3. Effective Utilisation of Resource**

The Procurement function is currently a single-person centralised unit undertaking mainly tactical activities. The Strategy aimed to move the Procurement function towards a more de-centralised model involving greater engagement and input from airport management, so that the central function could focus on strategic corporate activities to add value and facilitate improved performance and growth.

*Areas of Compliance with Procurement Strategy:*

- Airport or Corporate Managers were actively involved in all the 15 regulated procurements.
- All four tendered procurements were led by the Procurement function and used the standard process and templates available on the Intranet.

*Non-Compliance with Procurement Strategy:*

- Five of the NCA's did not involve the Procurement function.
- Expenditure reporting and analysis was not used to identify common areas of spend across all areas of the business, resulting in missed opportunities to achieve cash and process efficiencies.

*Measures to Improve Compliance:*

- Improved financial reporting and management information as part of the scope to upgrade the HIAL financial system in 2018/19.
- Allocate resource to analysing expenditure data to identify opportunities to aggregate demand, prioritise procurements and achieve cash savings and process efficiencies on a wider basis.

### **4. Sustainability**

Skilled and motivated staff, fair work practices and awareness of environmental and social impacts during procurement are fundamental to achieving HIAL's corporate aims and wider national priorities.

*Areas of Compliance with Procurement Strategy:*

- Environmental, social/economic and fair work practices were considered during the tender preparation stage of each of four tendered procurements.
- Sustainability award criteria were included in three of the four tenders.
- Two of the tenders resulted in Community Benefits being included in the contracts.

*Non-Compliance with Procurement Strategy:*

- The seven NCAs did not consider Sustainability matters during the procurement process.
- No contracts were awarded to Supported Businesses.
- Living Wage Accreditation for HIAL has commenced but has not yet been completed.

#### *Measures to Improve Compliance:*

- Reduce the number of NCA's which will result in Sustainability matters being considered as part of a standard tender process.
- Investigate the use of Supported Businesses for signage.
- Allocate resource to progress Living Wage Accreditation.

### **Section 3 – Community Benefit Summary**

The Act requires the Annual Report to provide a summary of any Community Benefit requirements imposed as part of a regulated procurement that were fulfilled during the reporting year.

The aim of Community Benefit clauses within suppliers' contracts of significant value or duration is to provide targeted means of achieving sustainability objectives, e.g. local recruitment, training, SME development, community engagement, etc. Under the Act, Community Benefits must be considered for contracts with a value above £4 million but could also be applied where relevant below this threshold.

Very few HIAL contracts are above the threshold for mandatory inclusion of Community Benefits. However, HIAL considers the relevance and application of community benefit activities as part of the preparation for every regulated procurement involving the Procurement function.

In the reporting period, two regulated procurements resulted in Community Benefits forming part of their contractual Key Performance Indicators. The benefits included:

- Using SME's as sub-contractors and suppliers
- Employing apprentices and promoting internships
- Undertaking school/college visits and presentations
- Providing work experience opportunities
- Having STEM Ambassadors
- Reduced environmental impact by better use of technology
- Annual reporting on carbon savings.

### **Section 4 – Supported Business Summary**

The Act requires the Annual Report to provide a summary of any steps taken to facilitate the involvement of Supported Businesses in regulated procurements during the reporting period.

Supported Businesses are those suppliers whose main aim is the social and professional integration of disabled or disadvantaged persons where at least 30% of the employees are disabled or disadvantaged. This provides employment, training and social support to those who may otherwise be excluded from the workplace. Utilising the services of a Supported Business is an element of our Sustainable Procurement Duty.

An external catering service provided by a local social enterprise was trialled for two regular corporate meetings. The feedback from both sessions was that the quality of food, presentation and delivery was not satisfactory. This combined with a higher cost led to the decision to revert to the previous catering supplier, who was a local SME.

The Procurement function proposed investigation of using a Supported Business for airport signage during a period of car park development but this was not pursued. However, a local SME supplier was utilised.

It should be noted that there are very few Supported Business relevant to HIAL requirements in the Highlands.

## Section 5 – Future Regulated Procurements Summary

The Act requires this report to provide a summary of the regulated procurements HIAL expects to commence in the next two financial years:

Project Name	Regs.	Airport	Capital / Revenue	New / Re-Let	Contract Value	Anticipated Publish Date	Anticipated Award Date	Expected Start Date
Voice Communication Control System Replacement	UCS	Multiple Sites	Capital	New	£726,000	Jun-18	Aug-18	Aug-18
Website Redesign	PCS	Corporate	Revenue	Re-Let	£300,000	Jul-18	Oct-18	Nov-18
Aviation Fuel Supply	UCS	Dundee	Revenue	Re-Let	£1,400,000	Aug-18	Oct-18	Nov-18
Non Directional Beacon Replacement	UCS	Multiple Sites	Capital	New	£500,000	Aug-18	Oct-18	Nov-18
Domestic Water Services Maintenance	PCS	Corporate	Revenue	Re-Let	£320,000	Sep-18	Oct-18	Nov-18
HR System	PCS	Corporate	Revenue	New	£200,000	Oct-18	Dec-18	Jan-19
Standby Generators Maintenance	PCS	Corporate	Revenue	Re-Let	£200,000	Sep-18	Nov-18	Dec-19
Local Exhaust Ventilation Systems Maintenance	PCS	Corporate	Revenue	Re-Let	£120,000	Sep-18	Nov-18	Dec-19
Finance System Upgrade	PCS	Corporate	Capital	New	£200,000	Sep-18	Nov-18	Dec-18
Workwear and PPE Supply	PCS	Corporate	Revenue	Re-Let	£500,000	Oct-18	Dec-18	Jan-19
Airfield Surface Water Drainage Works (Phase 2)	UCS	Inverness	Capital	New	£4,200,000	Nov-18	Feb-19	Apr-19
Supply & Install Hold Baggage EDS Equipment	UCS	Inverness	Capital	New	£3,000,000	Nov-18	Feb-19	Apr-19
Supply & Install Hold Baggage EDS Equipment	UCS	Sumburgh	Capital	New	£1,500,000	Nov-18	Feb-19	Apr-19
Hangar Door Maintenance	UCS	Multiple Sites	Revenue	New	£100,000	Jan-19	Mar-19	Apr-19
M&E Term Contractor Framework	UCS	Corporate	Revenue	Re-Let	£5,000,000	Mar-19	May-19	Jun-19
Contractor Works Framework	UCS	Corporate	Capital	New	£15,000,000	Apr-19	Jul-19	Sep-19
Cleaning	PCS	Multiple Sites	Revenue	Re-Let	£500,000	Jun-19	Aug-19	Sep-19
Waste Management & Recycling	PCS	Corporate	Revenue	Re-Let	£100,000	Jun-19	Aug-19	Oct-19
Air Traffic Management Centralised Surveillance	UCS	Corporate	Capital	New	£28,000,000	Jul-19	Dec-19	Apr-20
Pavement Term Contractor Framework	UCS	Corporate	Revenue	Re-Let	£5,000,000	Sep-19	Dec-19	Jan-20
Coastal Protection Works	UCS	Stornoway	Capital	New	£6,000,000	Nov-19	Feb-20	Apr-20
Electricity Supply	PCS	Corporate	Revenue	Re-Let	£33,000,000	n/a	Feb-19	Apr-19
Insurance Brokerage Services	PCS	Corporate	Revenue	Re-Let	£200,000	Dec-18	Mar-19	Apr-19



## Section 6 – Other Considerations

Outside the minimum requirements of the Act, this report provides an opportunity to update stakeholders on other procurement activities, progress and opportunities for adding real value to the business.

### Sustainable Economic Growth

HIAL and the Scottish Government have clear objectives for sustainable economic growth both within the organisation and for the broader local communities.

Within the HIAL Procurement Forward Planner are plans for several Framework Agreements for the provision of construction works and maintenance services at all 11 airport sites. This provides an opportunity to consider more closely the potential impact on local communities that such contracts could bring.

The previously popular strategy across most public sector organisations to aggregate demand into large single contracts, particularly around Facilities Management services, may well change following the recent collapse of some of these major suppliers, resulting in significant impacts on local jobs and public services. HIAL is considering more targeted local services by the increased use of Lots, where it is appropriate and beneficial to the broader aims of the company.

Integrating Fair Working Practices, including the Living Wage, into all tenders will bring focus to the labour market which in turn supports local and national economies.

Achievement of HIAL corporate aims for increased growth and improved connectivity for its regional airports will rely on the performance, quality and resilience of its supply chain. The Procurement function will have a key part to play in optimising efficiencies and securing quality services to meet customer expectations.

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## Annex A – HIAL Procurement Strategic Objectives 2017-20

Procurement Strategic Objectives		Measure	2019/20 Target
<b>1. COMPLIANCE</b>			
1.1	People Staff members involved in procurement are aware of public procurement Regulations.	Number of staff trained and awarded Delegated Procurement Authority (DPA) as % of total management staff group.	100%
1.2	Process Staff members involved in procurement comply with public procurement Regulations.	Number of incidents of non-compliance as % of total contracts awarded.	10%
1.3	Performance Maintain Scottish Government Procurement and Commercial Improvement Programme (PCIP) rating.	PCIP score	Above 70%.
<b>2. ECONOMIC CHALLENGES</b>			
2.1	People Internal and external collaboration in order to aggregate demand, standardise specifications, and consolidate supplier base.	Number of suppliers providing similar items as % of total suppliers. Value of cash savings from using collaborative agreements (SG and internal) Value of resource cost-avoidance (£5k per agreement, 5 per year).	25% £500,000 £100,000
2.2	Process e-Procurement embedded throughout the organisation in order to minimise purchasing transactional costs.	Value of transactional cost saving from e-Purchasing (£28 saving per transaction) Value of resource cost-avoidance achieved from using e-Tendering (PCS portal) Number of invoices paid within 30 days as a % of total invoices paid.	£100,000 £50,000 95%
2.3	Performance Cash savings and added value outcomes achieved in procuring recurring goods/services.	Value of cash savings achieved following procurement Expenditure not covered by a contract as a percentage of total expenditure. Number of key contracts actively managed as a % of all contracts.	£1,000,000 20% 100%
<b>3. UTILISATION OF RESOURCE</b>			
3.1	People Staff members with DPA understand procurement practices and are involved in its development.	Number of staff satisfied that they understand procurement practice and are sufficiently involved its development, as a total of DPA staff.	75%
3.2	Process Staff members with DPA have access to relevant procurement policies, procedures, templates and guidance (Rules and Tools).	Number of staff satisfied that they have sufficient Rules and Tools to enable them to undertake procurement activities, as a total of DPA staff.	75%
3.3	Performance Procurement activities are planned and prioritised according to corporate and operational needs, on a rolling 3-year basis.	Number of planned procurement exercises completed on time as % of total exercises in Procurement Plan.	75%
<b>4. SUSTAINABILITY</b>			
4.1	People Staff members with DPA understand best practice procurement in order to support sustainable local communities.	Number of staff satisfied that they understand sustainability aims, as a % of total DPA staff	75%
4.2	Process Compliance with Sustainable Procurement Duty.	Number of contracts awarded to Supported Businesses as a % of total contracts awarded.	5%
4.3	Performance Supplier and supply chains operate to best practice employment standards.	Number of suppliers on Contracts Register paying at least Living Wage to staff, as a % of all suppliers.	75%