



HIGHLANDS AND ISLANDS AIRPORTS LIMITED

ANNUAL PROCUREMENT REPORT 2018/19

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Introduction

The Procurement Reform (Scotland) Act 2014 forms part of public procurement regulation that governs how Scottish public bodies buy goods, works and services, and aims to maximise the economic benefit brought to Scotland from effective and efficient procurement activity.

The Act requires all Scottish public bodies with an annual procurement spend of over £5m to prepare and implement a procurement strategy. It also requires the publication of an Annual Procurement Report to inform stakeholders on procurement performance and achievements in delivering their procurement strategy.

The HIAL Procurement Strategy 2017-2020 set out the high-level strategic direction for the procurement function in delivering value for money and contributing to the achievement of organisational and national aims and objectives. The focus of this 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.

This Annual Report summarises the regulated procurement activity undertaken during the period 1 April 2018 to 31 March 2019 in delivering the objectives of our Procurement Strategy.

Executive Summary

Highlands and Islands Airports Limited (HIAL) is a private limited company wholly owned by Scottish Ministers, which operates 11 airports throughout the Highlands & Islands and Tayside. Our airports handle over 1.78m passengers a year and employ over 650 people.

The company's mission statement is "To create social benefit and economic prosperity by building Scotland's regional airport network of the future. This is part of our ambitious vision to become the best regional airport group in the world."

HIAL's vision and goals are aligned with the Scottish Government's strategic priorities for a wealthier & fairer, healthier, safer & stronger, smarter & greener Scotland. HIAL supports some of Scotland's most remote communities, most of which are reliant on air travel as a means of connecting communities and transporting goods and services, and are vital to the social and economic welfare of the areas they serve.

HIAL continues a period of growth with new routes and airline operators providing increased connectivity for the Highlands and Islands with the UK and abroad, resulting in increased passengers transiting through our airports and increased flight movements. This growth is positive in supporting remote communities and rural economies but also brings challenges in terms of maintaining and improving our complex and aging infrastructure, and working with our supply chain partners to ensure the best possible customer experience.

The HIAL Procurement function continues to become more embedded within the corporate and operational processes across all airport sites, particularly with budgetary pressures making it ever important to source the best solutions at the best price. There was an increase in the number of regulated procurement exercises from 15 in 2017/18 to 20 in 2018/19, and of these regulated procurements there was a significant reduction from 7 non-competitive awards in 2017/18 to nil in 2018/19, which demonstrates a greater understanding and engagement of managers with procurement regulatory compliance.

Supply competition is viewed more positively by managers, whilst being assured that local supply chains are maintained where possible. Regulated procurement exercises achieved savings of over £100k against budget estimates and 9 of these contracts were awarded to UK Small & Medium Sized Enterprises, 4 of which were Scottish businesses.

The 2018/19 Procurement Annual report is welcomed by the HIAL Board and senior management team as a summary of regulated procurement activities and performance against our Procurement Strategy, and supports continued improvements in this area.

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 and to demonstrate transparency in our approach to public procurements. Regulated Procurements are defined in the Act as any procurement related to public contracts:

- Above £50,000 for goods and services
- Above £2,000,000 for works.

HiAL are also defined as a “Utility” within EU Procurement Regulations when procuring goods, works or services in relation to the provision of airport operations over OJEU thresholds:

- Above £328,352 for goods and services
- Above £4,102,394 for works.

Regulated Procurements are required to be undertaken in a manner compliant with Scottish Procurement Regulations. They include the award of a new contract or framework agreement, or the award of a call-off contract from an existing framework agreement.

HiAL awarded a total of **20** contracts under Regulated Procurements during the reporting period, with a total value of **£4,716,359**. Of these, **2** contracts were procured under EU Procurement Regulations, with a total value of **£938,928**.

Annex A provides more detail on the Regulated Procurements completed.

Section 2 - Review of Regulated Procurements Compliance

The Act requires the Annual Report to summarise whether regulated procurements complied with the Procurement Strategy objectives during the reporting period, and where procurements do not comply, how HIAL intends to improve compliance.

The 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 cover key business drivers:

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

Statutory and Regulatory Compliance

HIAL budget holders or their representatives were involved in all regulated procurements and they were aware of public procurement rules. The majority (18) procurements were undertaken in line with Procurement Regulations; however 2 procurements were performed as quotation exercises when the value of the contract once awarded exceeded the threshold for regulated tendering.

HIAL have implemented improved project planning processes which have been successful in enabling forward-planning and thus reducing the bottle-neck of procurements at year end. These measures have contributed to improved compliance and a drop in the number of non-competitive awards. Further work is required to improve our pre-tender cost estimating to ensure correct procurement procedures are followed and to aid financial planning.

Economic Challenges

We continue to utilise collaborative framework agreements and implement HIAL framework agreements; 3 regulated procurements awarded in the reporting period were call-offs from a HIAL framework and 1 procurement was a call-off from a collaborative framework. These mechanisms minimise procurement resource, standardise quality/service, save money via discounted prices, and reduce the number of suppliers so providing transactional efficiencies. Utilising Scottish Government Frameworks achieved cash savings benefits of £95k in the period on a £1.2m spend across these contracts.

Regulated procurement exercises in 2018/19 achieved savings of over £100k against budget estimates.

The company would benefit from formal Contract and Supplier Management processes to be developed and implemented throughout the organisation on a proportional basis to drive performance and quality services. Initial work has commenced to examine our on-boarding process for new suppliers and ongoing supplier due diligence checks.

Effective Utilisation of Resource

18 regulated procurements in the reporting period involved cross-functional liaison and/or formation of project teams to best utilise the expertise and knowledge of HIAL staff to source the best solutions. All tendered procurements were led by the Procurement function and used a standardised process and templates, with continued use of PCS to automate tender management via their tendering web portal.

Improved expenditure reporting and analysis to identify common areas of spend across all areas of the business, resulting in opportunities to achieve cash and process efficiencies, should be available via the new Finance Management system to be procured in 2020/21.

Sustainability

Environmental, social/economic and fair work practices continue to be considered in all tendered procurements, and included as scored award criteria when relevant. HIAL will continue to seek Living Wage Accreditation, which includes commitment from key on-site suppliers to pay the Living Wage to their staff.

9 regulated procurement contracts were awarded to UK Small & Medium Sized Enterprises within the reporting period, 4 of which were Scottish businesses. Of the total procurement spend of £21m by HIAL in the reporting period, £14.6m was with SMEs.

No contracts were awarded to Supported Businesses in the business which in the main is due to there being few services relevant to HIAL's operation, however this is a consideration during every regulated tender.

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.

No HIAL procurements were above the threshold for mandatory inclusion of Community Benefits in this reporting period, however, HIAL considers the relevance and application of community benefit activities as part of the preparation for every regulated procurement involving the Procurement function.

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.

There are very few Supported Business relevant to HIAL requirements and HIAL procured no such contracts in this reporting period.

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.

HIAL continues its programme of capital investment projects across all its airports to ensure essential connectivity is sustained, passenger experience is enhanced and critical equipment remains operable. Future projects include runways and taxiways, terminal buildings, security equipment, air traffic equipment and hangars occupied by critical Search and Rescue operations. The transformation of air traffic services to a Remote Tower Solution to provide a continued long-term, sustainable air traffic control service is one of our most complex and exciting projects in the programme.

Annex B provides more detail on the Regulated Procurements completed.

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.

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 – Summary of Regulated Procurements 2018/19

Contract Type	Contract Title	Airport	Contract Value	Supplier Name	Contract Start Date
Works	Runway & Taxiway Pavement Rehabilitation	Kirkwall	£ 476,831	Breedon Hebrides	19-Nov-18
Works	North Apron Drainage	Wick	£ 445,521	GMR Henderson Ltd	20-Jun-18
Works	Surface Water Drainage (Phase 1)	Inverness	£ 808,346	MacKenzie Construction Limited	24-Sep-18
Services	Hangar 1, 2 & 4 Rehabilitation - Project Management & Supervision	Sumburgh	£ 60,740	Turner & Townsend Project Management Ltd	18-Jun-18
Services	Upgrade Direction Finder Systems	Multiple Sites	£ 100,411	Rohde & Schwarz UK Ltd	01-May-18
Goods	Advertising Equipment and Support	Inverness	£ 80,179	Eye Airports	29-May-18
Goods	Vehicle Parts and Consumables	Corporate	£ 285,000	Dingbro Limited	01-May-18
Services	Lifting Equipment Inspection	Corporate	£ 53,442	Inspection Network Limited	01-May-18
Works	Air Traffic Control Tower Refurbishment Works	Kirkwall	£ 305,051	Bell Contracts and Co. Limited	06-Aug-18
Goods	Voice Communication Control System Replacement	Multiple Sites	£ 588,237	Copperchase Limited	08-Oct-18
Works	Air Traffic Control Tower Refurbishment Works	Tiree	£ 110,758	Thurston Group Ltd	11-Jun-18
Services	Hold Baggage Replacement - Pre-Construction Design	Inverness	£ 250,638	Jacobs UK Limited	19-Nov-18
Services	Surface Water Drainage (Phase 1) - Project Management	Inverness	£ 46,992	Turner & Townsend Project Management Ltd	02-Nov-18
Works	Airfield Ground Lighting Cabling Replacement	Kirkwall	£ 102,035	GMR Henderson Ltd	04-Jan-19
Services	Insurance Brokerage Services	Corporate	£ 50,000	Portmore Insurance Brokers Limited	25-Jan-19
Works	Surface Water Drainage - Marine Investigations	Inverness	£ 199,996	Fugro GeoServices Limited	21-Feb-19
Goods	Explosive Trace Detection Systems	Multiple Sites	£ 350,691	Smiths Detection-Watford Ltd	28-Mar-19
Services	SAMOS Annual Maintenance	Multiple Sites	£ 71,600	Muir Matheson Aviation Ltd	01-Apr-19
Services	Surface Water Drainage - Ground Investigations	Inverness	£ 87,247	Fairhurst	18-Mar-19
Goods	Cabin Baggage X-ray Equipment	Inverness	£ 242,643	Smiths Detection-Watford Ltd	29-Jan-19

Annex B – Summary of Future Regulated Procurements 2019 - 2021

Project Name	Airport	Contract Value
HR System	Corporate	£200,000
Finance System	Corporate	£200,000
Workwear and PPE Supply	Corporate	£400,000
Cleaning	Multiple Sites	£500,000
Waste Management & Recycling	Multiple Sites	£100,000
Liquid Fuel	Multiple Sites	£1,875,000
Airfield Wildlife Management	Multiple Sites	£300,000
Passengers with Reduced Mobility Support Services	Inverness	£850,000
M&E Term Contractor Framework	Corporate	£5,000,000
Pavement Term Contractor Framework	Corporate	£5,000,000
Hold Baggage EDS Equipment	Inverness	£3,000,000
Hold Baggage EDS Equipment	Sumburgh	£1,500,000
Hold Baggage Equipment	Kirkwall	£1,100,000
Air Traffic Management Centralised Surveillance	Corporate	£28,000,000
Non-Directional Beacon Equipment Replacement	Multiple	£700,000
Portable Airfield Ground Lights	Tiree	£230,000
Terminal Building Expansion	Barra	£700,000
Hangar Refurbishment	Sumburgh	£1,500,000
Hangar Refurbishment	Stornoway	£750,000
Airfield Surface Water Drainage Works (Phase 2)	Inverness	£4,200,000
Runway Pavement Resurfacing	Campbeltown	£3,000,000
Runway Pavement Resurfacing	Islay	£3,500,000
Runway Pavement Resurfacing	Inverness	£3,500,000
Runway Pavement Resurfacing	Sumburgh	£1,300,000