

# **Annual Procurement Report 2020/21**

# About us

**Highlands and Islands Airports Limited (HIAL) is a private limited company wholly owned by the Scottish Ministers and is responsible for the management and operation of 11 airports.**

HIAL was incorporated in Edinburgh on 4 March 1986 as a private limited company. On 1 April 1995, ownership of the company transferred from the UK Civil Aviation Authority to the Secretary of State for Scotland and subsequently to the Scottish Ministers. HIAL receives subsidies from the Scottish Government in accordance with section 34 of the Civil Aviation Act 1982 and is sponsored by Transport Scotland – Aviation, Maritime, Freight and Canals Directorate.

Our airports are located at: Barra, Benbecula, Campbeltown, Dundee, Inverness, Islay, Kirkwall, Stornoway, Sumburgh, Tiree and Wick John O'Groats, and pre-Covid handled over 1.78m passengers a year. The company employs over 660 people.



## Contents

<b>Executive Summary</b>	<b>1</b>
<b>Section 1 – Summary of Regulated Procurements Completed</b>	<b>2</b>
<b>Section 2 – Review of Regulated Procurements Compliance</b>	<b>4</b>
<b>Section 3 – Community Benefit Summary</b>	<b>6</b>
<b>Section 4 – Supported Business Summary</b>	<b>8</b>
<b>Section 5 – Future Regulated Procurements Summary</b>	<b>9</b>
<b>Section 6 – Other Considerations</b>	<b>10</b>
<b>Annex A – Summary of Regulated Procurements 2020/21</b>	<b>11</b>
<b>Annex B – Future Regulated Procurements 2021-24</b>	<b>12</b>

# Executive Summary

**Working with our partners and stakeholders, we are committed to supporting the essential socio-economic role of aviation in Scotland by maintaining and developing our airports and the vital lifeline services and connections they provide for some of our country's more remote communities.**

Safety underpins every aspect of our operations. We have a robust safety and security programme that achieves regulatory compliance throughout our organisation. We continuously review our systems and procedures to ensure that our organisation and every one of our airports has the very highest standards of safety performance and resilience.

The Procurement Reform (Scotland) Act 2014 (the Act) 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.

## **Our core activities include:**

- Providing airports which meet regulatory standards and support essential transport connectivity
- Maintaining and developing airport infrastructure and services
- Working with airlines and others to maintain and develop scheduled, charter and freight air services
- Developing our commercial revenue to build business resilience.

From March 2020, Covid-19 restrictions resulted globally in reduced end-user demand, businesses temporarily closed and staff temporarily on furlough or made redundant – all of which impacted on our supply chain tiers, from raw materials and manufacturing to suppliers and retail. The aviation sector has been particularly affected due to the worldwide restriction on travel, which effectively grounded aircraft and partially closed airports. Private sector aviation capital projects were postponed or cancelled, and ongoing aviation related services and supplies were cut back.

In the 2020/21 period, HIAL airports continued to experience less passenger numbers than previous years due to Covid-19 restrictions, but connectivity for the Highlands & Islands with the UK and abroad continued to be a priority in supporting remote communities and rural economies. The challenges remained in terms of maintaining and improving our complex infrastructure and working with our supply chain partners to ensure the best possible customer experience.

As we begin the process of recovery, our supply chain is also slowly recovering. We must be mindful of the loss of key staff to deliver current contracts, increased supplier insolvency risk, and potentially decreased capacity to tender for future contracts.

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. Supply competition is viewed positively by our managers, whilst being assured that local supply chains are maintained where possible.

The 2020/21 HIAL Annual Procurement Report is endorsed by the HIAL Board and senior management team as a summary of procurement activities and performance against our Procurement Strategy and supports continued improvements in this area.

## **Our mission:**

HIAL's mission is to create social benefit and economic prosperity by building Scotland's sustainable regional airport group of the future. This is part of our ambitious vision to become 'the first carbon-neutral regional airport group in Europe'.

# Section 1 – Summary of Regulated Procurements Completed

‘Regulated Procurements’ are purchasing activities that must be undertaken in a manner compliant with Scottish procurement legislation. They include the award of a new contract or framework agreement, or the award of a call-off contract from an existing framework agreement.

## Overview of Regulated Procurement as applicable to HIAL

HIAL is subject to several procurement regulations, depending on the purpose and value of the procured item:

- The Utilities (Scotland) Regulations 2016
- The Public Contracts (Scotland) Regulations 2015
- Procurement Reform (Scotland) Act 2014
- The Procurement (Scotland) Regulations 2016
- The Concession Contracts (Scotland) Regulations 2016.

**The Utilities (Scotland) Regulations 2016** (the Utilities Regs) apply to “activities relating to the exploitation of a geographical area for the purpose of the provision of airports”. Items or activities procured by HIAL above the Utilities Regs threshold values<sup>1</sup> for the purpose of operating our airports are regulated by this legislation.

Should HIAL wish to procure items or activities not related to operating an airport (for example building a hotel), **The Public Contracts (Scotland) Regulations 2015** (the Public Contracts Regs) would apply where the value is above Public Contracts Regs thresholds<sup>2</sup>.

**The Procurement Reform (Scotland) Act 2014** (the Act) introduced a range of measures to provide a legislative framework for sustainable public procurement across the Scottish public sector that supports Scotland’s economic growth through improved procurement practice, including:

- Mandatory publication of procurement strategies and annual procurement reports
- Sustainable procurement duty
- Community benefits
- Fair work practices, including Living Wage
- Selection of tenderers and award of contracts below EU thresholds.

The Act applies to “regulated procurements” which are defined as public contracts with a value between certain thresholds<sup>3</sup> that are not an *excluded contract*. Under the Act, an excluded contract is “of a kind to which Public Contracts Regulations do not apply”. Therefore, the regulated procurements covered by the Act and applicable to HIAL are only those contracts which are not related to operating an airport.

**The Procurement (Scotland) Regulations 2016** (the Procurement Regs) exercise the power conferred by relevant elements of the Act.

**The Concession Contracts (Scotland) Regulations 2016** (the Concession Regs) apply to works and services concession contracts over a threshold value<sup>4</sup>, where exemptions do not apply. A service or works concession contract is a contract for pecuniary interest in which HIAL entrusts the provision and management of services, or execution of works, to one or more economic operators, the consideration of which consists either solely in the right to exploit the services that are the subject of the contract or in that right together with payment. For example a retail concession in an airport terminal building or the construction of a commercial car park.

The current public procurement regulations are derived from European Procurement Directives. Following the transition of the UK from European Union, the UK has become a member of the World Trade Organisation’s (WTO) Government Procurement Agreement (GPA) as a party, which will require technical changes to Scottish public procurement regulations, currently being debated in Scottish Government.

The current **HIAL Procurement Policy** states that all contracts with a whole life value above £50k are tendered and contracts below £50k are awarded following 3 quotations. These process thresholds provide the business with sufficient controls, best value, and transparency.

The current regulatory and policy framework applicable to HIAL’s procurement is complex. Table 1 below summarises broadly the routes dependent on what is being purchased and the value, but other elements such as supply markets and operational risk are also considered.

<sup>1</sup> Threshold for regulated procurements (1 Jan 2020 – 1 Jan 2022) under the Utilities Regs: Goods and Services – above £378,660  
Works – above £4,733,252.

<sup>2</sup> Threshold for regulated procurements (1 Jan 2020 – 1 Jan 2022) under the Public Contracts Regs: Goods and Services – above £189,330  
Works – above £4,733,252

<sup>3</sup> Threshold for regulated procurements (1 Jan 2020 – 1 Jan 2022) under the Act: Goods and Services – above £50,000 and below EU thresholds  
Works – above £2,000,000 and below EU thresholds.

<sup>4</sup> Threshold for regulated procurements (1 Jan 2020 – 1 Jan 2022) under the Concession Regs: Services and Works – above £4,733,252

# Section 1 – Summary of Regulated Procurements Completed

Table 1 – Summary of Contract Type, Regulation and Process:

Contract Type	Value	Regulation	Procurement Route
Airport Related Goods & Services	below £50k	Not regulated	Quotation
	£50k to £379k	Not regulated	Tender
	<b>above £379k</b>	<b>Utilities Regs</b>	<b>Regulated Tender</b>
Airport Related Works	below £50k	Not regulated	Quotation
	£50k to £4.7m	Not regulated	Tender
	<b>above £4.7m</b>	<b>Utilities Regs</b>	<b>Regulated Tender</b>
Non-Airport Related Goods & Services	below £50k	Not regulated	Quotation
	<b>£50k to £190k</b>	<b>Procurement Regs</b>	<b>Regulated Tender</b>
	<b>above £190k</b>	<b>Public Contracts Regs</b>	<b>Regulated Tender</b>
Non-Airport Related Works	below £50k	Not regulated	Quotation
	£50k to £2m	Not regulated	Tender
	<b>£2m to £4.7m</b>	<b>Procurement Regs</b>	<b>Regulated Tender</b>
	<b>above £4.7m</b>	<b>Public Contracts Regs</b>	<b>Regulated Tender</b>
Services or Works Concession	below £50k	Not regulated	Quotation
	£50k – £4.7m	Not regulated	Tender
	<b>above £4.7m</b>	<b>Concession Regs</b>	<b>Regulated Tender</b>

This Procurement Annual Report 2020-21 covers all regulated procurements as the regulations apply to HIAL. Further detail on regulated procurements completed in the period are shown at Annex A.

Table 2 – Summary of Regulated Procurements Completed in 2020/21

Regulation	Number of Procurements	Total Value
Utilities Regs	17	£26,986,153
Public Contracts Regs	0	£0
Procurement Regs	1	£350,928
	<b>18</b>	<b>£27,337,081</b>

# Section 2 – Review of Regulated Procurements Compliance

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

The HIAL Procurement Strategy 2017-2020 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

All HIAL regulated procurements were undertaken in accordance with a standard process aligned to the Scottish Government’s Procurement Journey, which ensures that each procurement is compliant with legislative requirements.

HIAL budget holders and project team members involved in regulated procurements were aware of public procurement rules. The Procurement Team were involved in all regulated procurements.

There were no legal challenges to our procurement processes.

Tenders were conducted under both the Open Procedure and Restricted Procedure. All contracts were awarded based on the Most Economically Advantageous Tender (MEAT), balancing price, quality, and sustainability in procurement decisions.

From the Brexit transition on 30 December 2020, HIAL adopted the revised Single Procurement Document. HIAL continues to use the Single Procurement Document (SPD) as a matter of good practice for all tendered procurements over £50,000. The SPD provides a legitimate means for HIAL to exclude suppliers on the grounds of criminal convictions, misconduct in relation to money laundering, child labour, human or drug trafficking as well as non-compliance with social, environmental or employment law.

**Table 3 – Summary of Regulatory Compliance**

Procedure	Number of Procurements	Total Value	Procurement Team Involvement
Call-Off from Framework	5	£11,114,246	Yes
Open Tender	4	£5,949,748	Yes
Restricted Tender	2	£895,105	Yes
Negotiated with a Call for Competition	0	£0	n/a
Negotiated without a Call for Competition	4	£8,653,028	Yes
Existing Contract Modification	3	£724,954	Yes
Non-Compliant process	0	£0	n/a
	<b>18</b>	<b>£27,337,081</b>	

\* Negotiated Procedure Without Call for Competition

# Section 2 – Review of Regulated Procurements Compliance

## Economic Challenges

HIAL continue to promote competition in all purchasing activities to achieve best value and utilise collaborative framework agreements wherever possible. These framework mechanisms assist HIAL Procurement Team resourcing, standardise quality/service, achieve cash savings from discounted prices/economies of scale, and provide a quicker route to market.

Cash benefits to public bodies from utilising Scottish Government Frameworks are reported quarterly by Scottish Procurement – in the 2020/21 period HIAL achieved cash savings of £64k against a spend of £1.4m (4.6%).

Cash benefits from new contracts in terms of pre-tender cost estimates are logged for each HIAL tender. HIAL is working on methods to calculate and report more robustly on cash benefits, non-cash benefits and sustainability benefits.

Table 4 – Summary of Cash Benefits/Savings

Route to Contract Award	Number of Contracts	Total Value	Cash Benefits/Savings	Percentage Savings
Framework Call-Off	5	£11,114,246	£619,783	6%
Open Tender	4	£5,949,748	£68,252	1%
Restricted Tender	2	£895,105	-£29,362	-3%
Existing Contract Modification	3	£724,954	£0	0%
Negotiated without a Call for Competition	4	£8,653,028	£101,310	1%
		<b>£27,337,081</b>	<b>£759,983</b>	<b>3%</b>

## Effective Utilisation of Resource

Where relevant and appropriate, 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 Team and used a standardised process and templates, with continued use of Public Contracts Scotland (PCS) portal to automate tender management.

From March 2020 most head office staff were working from home, utilising Microsoft Teams and other digital solutions to facilitate safe social distancing protocols. Staff quickly and successfully adapted to this way of working; the tendering process is already electronic via PCS, and HIAL also adopted e-signatures and digital contracts which provided significant savings for resource, time and environment compared to preparing hard copy contracts and ink signatures.

## Sustainability

Sustainability is at the heart of our procurement activities to ensure goods and services are procured in a way that achieves quality, value for money and benefits for society, the economy, and the environment. Environmental, social/ economic, and fair work practices continue to be considered in all tendered procurements and included as scored award criteria when relevant. We use our influence in procuring contracts to encourage sustainable production of goods and delivery of services/works, and we also encourage this throughout our supplier's supply chains to improve their sustainability performance.

HIAL received accreditation as a Living Wage employer, which includes commitment from key on-site suppliers to pay the Living Wage to their staff.

We continue to proactively reduce our carbon footprint within our operations, for example working towards installing LED lighting in all public and operational areas, trialling more environmentally friendly runway de-icing products and sourcing electric operational vehicles where the technology is available.

# Section 3 – Community Benefit Summary

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

Under the Act, HIAL has a requirement to consider Community Benefits for contracts over £4m. Community Benefits are contractual requirements relating to training and recruitment or sub-contracting opportunities, or which will improve the social, economic, or environmental wellbeing of the communities we serve, and include:

- Generate employment and training opportunities for priority groups
- Vocational training for existing employees, new entrants, or sub-contracted staff
- Apprenticeships and job opportunities targeted at young people
- Up-skill existing workforce
- Equality and diversity initiatives
- Make sub-contracting opportunities available to SMEs, the third sector and supported businesses
- Supply-chain development activity
- Build capacity in community organisations
- Educational support initiatives
- Work with schools, colleges, and universities to offer work experience or site visits
- Minimise negative environmental impacts, for example impacts associated with vehicle movements and/or associated emissions and impacts on protected areas, buildings, or sites.



Balfour Beatty project with Inverness College UHI student on work placement

# Section 3 – Community Benefit Summary

One HIAL regulated procurement included Community Benefits in this reporting period; the Inverness Airport Surface Water Drainage Works Phase 2 awarded to Balfour Beatty Civil Engineering Limited. The Social Value Action Plan within this contract included the following Community Benefits:

- 8 hours dedicated to support 8 young people into work (e.g. CV advice, mock interviews, careers guidance) – (under 24 y.o.)
  - BB Community Benefits Advisors to support activities with local Inverness Barnardos group. Social distancing permitting, sessions will be delivered either within the Barnardos training centre in Inverness and/or may involve group (s) visiting project site. Purpose of sessions will be to promote and raise awareness of engineering works, career opportunities within sector and to promote entry requirements for gaining employment within sector. Additional assistance in terms of cv writing/interview preparation techniques will also be promoted. If social distancing is issue for face to face delivery, sessions will be delivered to Barnardos groups via video call platforms.
  - 4 weeks spent on meaningful work placements or pre-employment course; 1-6 weeks student placements (unpaid)
  - BB Community Benefits Advisors to liaise with Inverness UHI to identify students who may be interested in short work placement on project. Advisors will liaise with project management to arrange suitable time for students to be on site and coordinate arrangements with University department leads.
- £2.4m spent in local supply chain through the contract
  - Community Benefits Advisors will link with commercial team to capture and record information on local subcontractors involved in project delivery. Subject to contract awards, Balfour Beatty anticipate that local businesses will be involved in the delivery of the following packages:
    - Civil Engineering works
    - Fencing
    - Utilities
  - Based on current subcontract projections these would account for approx. £1.8m in local spend with Highland region.
- Complete Biodiversity Netgain Options assessment and metric analysis as part of the pre-construction phase.
- Based on this Social Value Action Plan (SVAP) it is estimated that this project will deliver 20% social value add, totalling around £2.4m in value.
- Within 1 month of completion our Project Manager will provide an evidence folder supporting the project level achievements.

HIAL considers the relevance and application of community benefit activities as part of the preparation for every regulated procurement involving the Procurement function. Benefits achieved from other contracts awarded during the period included: local SME and non-SME contractors, local employment and local services utilised; and apprenticeships/trainee programmes.

Of the 18 regulated procurements, 7 were awarded to SME's.

# Section 4 – Supported Business Summary

The Act requires the Annual Procurement 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.

Due to the nature of HIAL's business, there are very few Supported Business opportunities 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.

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 a summary of anticipated procurements.



Inverness Airport security

# Section 6 – Other Considerations

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

In the 2020/21 period our procurement spend was over £36m; £15.2m revenue expenditure and £20.8m on capital projects. The majority of HIAL's procurement spend is on operational service provision and maintaining our airfields and public area infrastructure. Within the HIAL Procurement forward planner for 2021 onwards are plans for HIAL framework agreements and contracts for the provision of construction works and facilities management 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 updated HIAL Procurement Strategy 2021-26 "Better Buying – Active management of expenditure to support sustainable procurement and reduce complexity, cost and risk in the supply chain", has been approved by the HIAL Board.

The 2021-2026 Strategy builds on progress made to date and provides a targeted transformational approach to supporting our mission to create social benefit and economic prosperity by building Scotland's sustainable regional airport group of the future; reinforced by our vision to become a net-zero carbon regional airport group. Procurement is a key facilitator to us achieving our corporate strategic priorities.

The unprecedented global, national, local, and individual impact of the Covid-19 pandemic and climate change emergency necessitates a priority to review what and how we procure, to influence commercially competitive decisions and support economic recovery.

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.

**Sarah Shelley**  
Procurement Manager



# Annex A – Summary of Regulated Procurements 2020-21

Contract	Airport	Supplier	Regulation	Procurement	Contract
Financial Management System	Corporate	Eureka Solutions Scotland	Utilities	Restricted Tender	£402,110
Airport Operational Management System	Corporate	ISO Software Systeme	Utilities	Restricted Tender	£463,633
HR & Payroll Management System	Corporate	MHR International UK Ltd	Utilities	Open Tender	£375,663
Supply De-Icer Fluid and Granules	Corporate	LNT Solutions Ltd	Utilities	Open Tender	£4,600,000
Supply Workwear and PPE	Corporate	Hunter Apparel Solutions	Utilities	Open Tender	£723,333
Switchgear Upgrade	Sumburgh	Ness Engineering	Utilities	Contract Modification	£510,000
Supply Runway De-Icer Vehicles	Corporate	Aebi Schmidt – DAF	Utilities	Framework Mini-Competition	£330,536
Supply Walk-Through Metal Detectors	Corporate	Smith's Detection Watford Ltd	Utilities	Open Tender	£250,752
Safety Assurance for Remote Tower Solution (010-3080)	ATMS	Osprey Consulting Services Ltd	Utilities	Framework Mini-Competition	£442,350
Update CRM System	Air Discount Scheme	Civic Software Limited	Procurement	Direct Award	£350,928
Airfield Surface Water Drainage Works (Phase 2)	Inverness	Balfour Beatty Civil Engineering Ltd	Utilities	Framework Call-off	£8,191,805
Radar Component Refresh	Inverness	Thales	Utilities	NPWCC*	£2,550,000
Supply Liquid Fuels	Corporate	Scottish Fuels	Utilities	Framework Call-off	£1,800,000
Air Traffic Engineering Maintenance	Corporate	NATS	Utilities	NPWCC*	£3,998,690
Approach Radar Service	Sumburgh	NATS	Utilities	NPWCC*	£1,753,410
Supply of Road Suction Sweepers	Corporate	Scarab Sweepers Ltd	Utilities	Framework Call-off	£349,555
Voice & Communication Control System	Sumburgh	Copperchase Ltd	Utilities	Contract Modification	£182,959
Voice & Communication Control System	Sumburgh	Copperchase Ltd	Utilities	Contract Modification	£31,995

\* Negotiated Procedure Without Call for Competition

# Annex B – Future Regulated Procurements 2021-24

Project Name	Airport	Estimated Contract Award	Estimated Contract Value £000
Green Energy Ground Power Unit Equipment	Corporate	2021-22	£610
Passenger Processing Equipment	Corporate	2021-22	£1,300
ATMS Central Surveillance Centre Works	Corporate	2021-22	£4,250
Runway Resurfacing Works	Campbeltown	2021-22	£4,580
Windfarm Radar Mitigation Equipment	Inverness	2021-22	£4,682
ATMS – Surveillance System Equipment	Corporate	2021-22	£5,402
ATMS – Remote Tower Equipment	Corporate	2021-22	£5,723
Coastal Protection Works	Stornoway	2021-22	£6,072
Environmental Airfield Drainage System Works	Inverness	2021-22	£13,440
Runway Resurfacing Works	Sumburgh	2021-22	£4,559
ATMS – Connectivity Services	Corporate	2022-23	£869
ATMS – Remote Communications Monitoring System Equipment	Corporate	2022-23	£1,236
Runway and Taxiway Resurfacing Works	Inverness	2022-23	£3,787
Runway and Taxiway Resurfacing Works	Islay	2022-23	£6,067
Replacement VHF Omnidirectional Range (VOR) Equipment	Inverness	2023-24	£1,000
Runway Resurfacing Works	Kirkwall	2023-24	£4,739



Campbeltown Airport Runway refurbishment work

