

The Arcadis Report on HAL's Procurement Strategy



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We asked Arcadis to carry out an initial assessment of Heathrow Airport Limited's (HAL's) procurement strategy for capacity expansion at Heathrow airport. This was primarily an information gathering exercise but presented Arcadis with the opportunity to comment on the appropriateness of HAL's procurement strategy and activities. Arcadis has not conducted a detailed comparison to industry best practice, which would require a more detailed review later in the process, as when this review was conducted HAL was at a relatively early stage in developing and implementing its procurement strategy for capacity expansion. The scope of work also did not include a detailed and granular analysis of all possible alternatives to this current / proposed approach.

Work by Arcadis commenced in April 2018 (before the National Policy Statement for Airports was designated by Parliament) and its [report](#) reflects a commentary on the 'state of play' in June 2018. There was then a period of time when Arcadis completed the drafting of its report and agreed with HAL redactions of confidential material to allow a version of the final report to be made publicly available.

The main findings of the Arcadis review include:

- HAL provided appropriate support (including making available management time, documentation and other information) to enable the review by Arcadis of HAL's procurement strategy;
 - large parts of the procurement strategy and process were at a high level due to the stage of the overall programme in June 2018. Several of the documents provided by HAL will be revised and amended as the programme develops, such as the Overarching Procurement Strategy Document and Construction Packaging Strategy. These are iterative documents and will continue to evolve at least until the M4 masterplan gateway exit, when HAL should have agreed its single preferred masterplan and developed a more detailed approach to delivery;
 - HAL is undertaking an iterative approach to design and the masterplan. This is initially more time consuming and costly than seeking to 'lock-down' key components of the design, but Arcadis notes that this approach should help to mitigate the risk of design clashes later in the programme and at more detailed design stages. Such an approach is relatively time consuming and will mean key decisions on procurement are not made until the masterplan and components of design are confirmed;
 - an ambition expressed by HAL is to be a very 'hands-on' client. To achieve this approach HAL says it will work with its Programme Client Partnerships to create an Integrated Client Team. HAL expects to be actively involved in the contracting and management of the supply chain and across the majority of the programme. Integration will be a key requirement in a large number of contracts. This is a somewhat different approach to that taken on Terminal 2, and an approach more closely aligned to that of Terminal 5;
 - Arcadis note that the first opportunity to start the procurement of major contracts for the delivery of capacity expansion will be in 2019 and this will be a critical year, providing a benchmark as to the organisation's ability to manage large quantities of spend effectively for capacity expansion. This includes early works (pre-DCO) procurement events that HAL has determined are likely to be required to support the timely delivery of capacity expansion;
 - HAL's ambition is that 'the correct packages paired with the correct procurement strategy will ensure best value overall'. In this context its procurement strategy refers primarily to two elements:
 - engagement models – the type of organisation it would prefer to deliver that package, and
 - procurement routes – the method/process through which Heathrow would identify the most appropriate and capable organisation with whom to contract.
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To date, HAL has considered 'engagement models' in greater detail than possible 'procurement routes'. Arcadis concluded that this was not a significant concern given the relatively early stage of the programme;

- HAL has said that no individual procurement routes have been discounted at this stage in the programme and that it regards its procurement strategy as 'in draft' and will evolve as design approaches a single preferred masterplan. It has said it is keeping all options for procurement routes open;
- Arcadis views it as positive that HAL has ambitions to incorporate learning, industry best practice and forms of innovation in its procurement strategy. For example, HAL has expressed the ambition to adopt Project 13 (an initiative coordinated by the Institution of Civil Engineers to improve infrastructure delivery) ways of working and capacity expansion is one of four early adopter programmes for this initiative. It has also launched its Innovation Partners process. Arcadis suggests that these ambitions and their success be monitored going forward; Arcadis encourages HAL to closely align the design and delivery phase of works and note it would be beneficial for HAL to better articulate the interface between design and delivery both at this stage and for future stages of the programme; and
- airline stakeholders have expressed an interest in the establishment of a new organisation ("BuildCo") which could be responsible for the delivery of capacity expansion. If pursued, this would considerably alter HAL's current strategy and impact the existing and future organisation and leadership structure of the expansion programme. This would be a strategic and business decision for HAL and Arcadis see this matter as separate from the procurement strategy for capacity expansion. Arcadis notes that HAL did not provide any information that suggests it is actively considering such an approach. Further, the information provided about its programme structure and approach (e.g. seeking to be a hands-on client) imply that HAL is not actively pursuing a full design and build approach (e.g. contracting out the delivery of an entire component).

Our initial observations on the Arcadis report and HAL's procurement strategy include:

1. it is important that HAL adopts an appropriate procurement strategy and to the extent that it is practicable HAL should also ensure that stakeholders are content with its strategy;
2. we note that HAL appears not to be pursuing options involving a full design and build approach;
3. HAL should be able to demonstrate that its chosen approach promotes efficiency, levers appropriately on competitive forces, makes best use of supply chain resources and avoids any distortions created by HAL contracting with any related parties;
4. the framework for economic regulation should incentivise the delivery of the programme in a way that is in the interests of consumers – minimising the whole life costs of a solution that will deliver (in a timely way) the appropriate facilities for passengers, cargo and airlines. We are working with CEPA and Arcadis on options to improve the incentives on HAL for the efficient delivery of capital costs.

We would welcome comments from stakeholders on any issues relating to these matters, including on HAL's procurement strategy, the Arcadis report on these matters and our initial observations on the report by Friday 15 March 2019. Responses should be emailed to economicregulation@caa.co.uk.

We intend to provide a further update on our approach to incentives for cost efficiency in our March 2019 consultation.

We expect to publish the responses we receive on our website as soon as practicable after the period for representations expires. Any material that is regarded as confidential should be clearly marked as such and included in a separate annex.

Please note that we have powers and duties with respect to information under section 59 of the Civil Aviation Act 2012 and the Freedom of Information Act 2000.

If you would like to discuss any aspect of this document, please contact Stuart Holder (stuart.holder@caa.co.uk).