



Heathrow Expansion Procurement Approach



Heathrow is a cornerstone of the UK economy and procurement sits at the heart of how Heathrow can deliver expansion affordably while creating the world's best connected, most efficient and sustainable hub airport at the centre of an integrated transport network.

The Procurement Approach sets out the values, principles and processes that Heathrow will apply to its procurement decisions for the expansion of the UK's only hub airport.

Introduction

“ Heathrow is one of the most experienced infrastructure delivery companies in the UK, having invested more than £11bn over a decade to develop terminals 2 and 5, both delivered on time and on budget, transforming Heathrow into the best hub airport in Europe.

As Executive Director it is my responsibility to work with our passengers, airlines, local communities, investors and supply-chain to deliver an affordable airport scheme that balances everyone’s interests that can be delivered on time and on budget to promote the sustainable growth of the UK’s only hub airport.”



Emma Gilthorpe

Emma Gilthorpe
Executive Director, Expansion



Delivering a programme of this scale, to enable an aircraft to take-off from the new runway will be an enormous challenge. This challenge provides unprecedented opportunity for suppliers and businesses. Expanding Heathrow will benefit millions of people all over the country, from Penzance to Inverness. Our new plans have been designed around the needs of local communities and will meet noise, air quality and carbon targets, and create up to 180,000 jobs and up to 10,000 apprenticeships.

For Heathrow to deliver the World’s best connected, most efficient and most environmentally responsible hub airport at the heart of an integrated transport network we will need to work with the best in design and construction. We will need to source and manage a significant amount of goods and services on budget and on time.

Heathrow’s Procurement Approach outlines at a high level what is important to us and how Heathrow will work with its Supply Chain Partners. It describes how Heathrow will engage with the supply chain and business partners to provide Britain with a world class, next generation airport we can all be proud of.



Maya Jani

Maya Jani
Expansion Procurement Director

2 Our procurement approach



Heathrow spends over £1.5 billion annually with over 1,200 suppliers from around the UK – and with expansion there is an opportunity for their roles to grow and for new innovative suppliers to be identified. Heathrow's Procurement objective is to engage a supply chain that delivers the world's best connected, most efficient and sustainable hub airport affordably and on time. Heathrow expansion will become one of the UK's largest infrastructure projects and we require a diverse supply chain to deliver it.

There are three distinct procurement phases in the programme. The first phase is the planning and development of an additional runway and new terminals, the second phase is the delivery and the third phase will be the operation of the new facilities. Heathrow has developed a contract packaging approach that has broken down the programme of works into deliverable packages. To meet the time, quality, safety, sustainability and cost objectives, we will adopt a robust, fair and transparent approach

to sourcing and managing contracts. Where we are not contracting directly, we plan to ensure that the same ethics and values are applied. We have produced this document to describe our values and how we will procure our supply chain.

Our procurement approach

Heathrow pledges

The Heathrow Expansion Programme is much more than building new infrastructure, it is about connecting the whole of the UK to growth and delivering great benefits, estimated at £211 billion. In order to ensure that Britain benefits, Heathrow has made five pledges that will take Britain further.

Heathrow will meet these pledges by:

- **Doubling the number of apprenticeships to 10,000 and extend programmes to champion employability skills training in schools**
- **Creating up to 180,000 new jobs with a focus on youth unemployment in the local boroughs**
- **Connecting every economic centre in the UK to growth**
- **Enable a significant increase in UK exports to close the gap between the UK and European competitors**
- **Delivering a cleaner, quieter Heathrow.**

Heathrow's supply chain will play a part in each and every one of these promises. An example would be generating job opportunities during design and construction through apprenticeships and training.



Fair and sustainable procurement

Heathrow is committed to enhancing the regional and national economic benefits to Britain through the sustainable expansion of Heathrow airport, whilst reducing its effects on the environment and local communities. This commitment will be delivered through Heathrow's sustainability strategy. It creates a platform for excellence in sustainability that will extend to every part of our business.

Heathrow recognises that we cannot achieve our commitments alone. Our supply chain sits at the heart of our plans, and by working collaboratively we can create a better, fairer future.

Achieving our vision to give passengers the best airport service in the world relies on managing and expanding the airport sustainably. We're working hard to maximise the economic benefits that Heathrow brings, whilst carefully managing our environmental responsibilities and being a good neighbour and employer to our local communities.



Our procurement approach

Fair opportunities for all

Heathrow is keen to work with Britain's Supply Chain in the best possible way. To level the procurement playing field, we will flex our contracting approach to remove hurdles for smaller suppliers and will work with 1st tier suppliers to ensure fair payment terms and cash flow are cascaded through the supply chain.

To achieve this, we will seek to remove barriers to entry, enabling new and smaller businesses the opportunity to work on this programme either directly with Heathrow, or within the extended supply chain.

Where a supplier is not directly procured by Heathrow, we will seek assurance that the supplier is not on less favourable terms than a 1st tier supplier and that the balance of risk and reward is fair for the works being undertaken.

To assist businesses across the country to confidently access our supply-chain opportunities, we will advertise 1st and 2nd tier requirements on Heathrow's website to enable businesses to identify future opportunities directly or indirectly through our supplier

partners. Heathrow is keen to encourage a diverse supply chain and embrace innovation within the programme to help achieve new standards of delivery.

The use of Logistics Hubs across the UK will allow for pre-fabrication and off-site manufacturing enabling us to spread the benefits and the legacy of this national piece of infrastructure across the country. We are committed to building the infrastructure, to build the infrastructure.



Our procurement approach

Heathrow's SME guarantees

Heathrow is committed to using its position as a national asset for the benefit of SMEs. As the UK's hub airport, Heathrow connects businesses up and down the UK to crucial growth markets around the world. The Heathrow Business Summit is a unique opportunity for SMEs to connect and trade face to face with Heathrow's supply chain and connect to growth opportunities locally, nationally and internationally.

The Heathrow Business Summit has for 20 years connected SMEs to new business opportunities with each other, the airport and through the airport to the world. In 2015 we delivered Business North and in 2016 Heathrow hosted additional Business Summits in Leeds, Manchester and Glasgow. In 2017 we intend to grow the Business Summits to seven and in addition we will visit every region of the UK to promote procurement opportunities and meet our potential supply chain.

Recognising that SMEs are the backbone of the British economy, and that 99.9% of the UK businesses are SMEs, Heathrow has made 5 SME Pledges.

We will:

- 1 Develop the successful Heathrow Business Summits across the UK.** These bring together SMEs with Heathrow's procurement team and the airport's principal suppliers.
- 2 As a signatory to the Prompt Payment Code, ensure suppliers are paid on time** and ensure this practice flows down through the airports supply chain into SMEs.
- 3 Establish a new Innovation Networking Forum to reach out to SMEs** and startup organisations in the innovation and technology sector.
- 4 Offer SMEs access to the millions of international passengers at Heathrow,** by brokering deals between stockists and World Duty Free and other retail tenants.
- 5 Establish a grants programme** offering awards up to £2k for SMEs to spend on travel and trade missions to help SMEs reach new markets.



Heathrow Supply Chain Principles

Our values are core to who we are and set the standard for engagement with our stakeholders while we continue to apply the highest possible standards to all our work. Our ambition is that our supply chain will embrace these principles and together we will operate as "Team Heathrow".

Principles for Business



1

Break down entry barriers so Heathrow is an easy place to do business.

2

Support business growth, by utilising the supply chain across the UK and embracing off-site manufacturing.

3

Take an active role to ensure the entire supply chain is fairly treated and are on no less favourable terms than our supplier partners.

4

Optimise value by embracing innovation. Create a nurturing environment to bring innovative ideas to maturity.

Principles for People



5

Work with the Skills Taskforce and our supply chain to provide skilled jobs and careers for local people.

6

Invest in advance to develop the leading construction skills needed for expansion, to create a legacy for the UK Construction industry.

7

Operate all contracts to ensure they provide for respectful terms of engagement and employment arrangements, including working with our supply chain towards becoming a London Living Wage community.

8

Be the benchmark for getting people home safely to their loved ones.

Principles for our Neighbours & Passengers



9

Create a "Team Heathrow" where all our suppliers and partners take responsibility through aligned values and behaviours.

10

Team Heathrow will be thoughtful and considerate of all our neighbours throughout the programme.

11

Sustainable procurement is core to all procurement decision making for the construction and operation of Heathrow.

12

During construction priority will be given to the day to day operation of Heathrow over construction activities.

Procurement framework



Heathrow will use best practice approach to sourcing in line with Heathrow's Supply Chain Policy and Sourcing Process.

Heathrow will provide advance notice of contract through its 'future procurement opportunities' website. It is also recommended that suppliers pre-register on Heathrow's eTender site on <https://procurement.heathrow.com>

To realise the Heathrow Supply Chain Principles, they will be embedded in the procurement process in how we will source, select and engage with Supplier Partners. They will be built into three core Procurement elements that will deliver the Heathrow Expansion Procurement Strategy:

- 1 **Sourcing Element** – how Heathrow will source and select Supplier Partners
- 2 **Commercial Element** – how Heathrow will reimburse and reward Supplier Partners
- 3 **Contracting Element** – how Heathrow will contract with the Supplier Partners

Sourcing element

Heathrow will not award contracts purely based on lowest price. Value will be the key driver and will be a blend of commercial, technical and behavioural factors. These will include time, quality, safety, responsible procurement and sustainability, including an industrial relations framework that creates collaborative working between everyone representing those working in construction.

Heathrow will want to maximise market competition as well as using benchmark data to derive best value for the programme. Supplier partners will be evaluated against the Heathrow Supply Chain Principles. Appropriate criteria will be added and different weightings applied to each criterion on a contract by contract basis, according to the nature of the goods and services being sourced.

Commercial element

Heathrow wants to create a commercial environment that motivates suppliers to be and give their best. Reimbursement, therefore, will be suitable to the supplier market and what is being procured. Where Heathrow isn't procuring directly, first tier Suppliers will be expected to provide assurance that 2nd and 3rd tier suppliers are on a reimbursement fair and appropriate to their market.

Heathrow will adopt a balanced approach to risk and reward to avoid excessive risk pricing. There will be an equitable incentive mechanism and a balance of incentives that operate at both the package and programme level, focussed on affordable outcomes and delivery of key milestones.

Contracting element

To operate simply and effectively with suppliers, Heathrow will adopt a flexible approach to contracting which reflects the specific requirements of each package and adopts an appropriate approach for each, including allocation of risk and incentive mechanisms.

In addition to contracts, Supplier Partners will be asked to sign up to a Supply Chain Charter. The Charter will be a commitment to; adopt the Heathrow Supply Chain Principles, promote integrated working, and an acknowledgement of key programme objectives and incentives.

Heathrow will use standard contracts such as the New Engineering Contract Version 3. The contract selected for use will be appropriate for the market and will be simple to administer and will contain contractual requirements for planning and community commitments and key policy requirements.

Governance and selection of supply chain partners

To ensure that the expansion of Heathrow is carried out in line with Heathrow's Supply Chain Principles and to support the on-going operation of the airport, Heathrow is adopting an intelligent 'hands on' client role and will operate in line with existing governance and structure.

Heathrow will procure and manage Supply Chain Partners and may oversee the procurement of significant tier two suppliers. Where a supplier is not directly procured by Heathrow, Heathrow will seek assurance that the supplier is not on less favourable terms than the tier one supplier.

Heathrow will use its generic 10 point Technical and Behavioural selection criteria to select suppliers to ensure that the Heathrow values and objectives are cascaded through the supply chain. This will include selection against aspects such as industrial relations management, which forms an important part of Heathrow's delivery methodology.

- 1 **Delivery Methodology**
- 2 **Resources** (internal and external)
- 3 **Behaviours**
- 4 **Innovation**
- 5 **Information Management**
- 6 **Quality Management**
- 7 **Risk and Value Management**
- 8 **Health and Safety**
- 9 **Sustainability**
- 10 **Commercial focus and acceptance to Terms & Conditions**



Communications and stakeholder engagement

The development and delivery of the Heathrow Expansion Programme will span more than 10 years. During this time the types of packages awarded within the supply chain will vary, along with their respective strategies. As a Conscientious Client, Heathrow intends that the various direct and indirect packages of work flow down through the supply chain supporting various market and business sector needs and regional growth, whilst ensuring a competitive level for value for money is retained throughout.

Heathrow will involve and engage with stakeholders via a Procurement Forum to test our procurement approach to capture a broad perspective within our strategies.

Along with the Supplier partners, Heathrow will also hold 2nd Tier forums with the purpose of creating the environment for best practice to be shared.

Further information

This publication is available on the Heathrow website:

www.heathrow.com/procurement

For future opportunities, please register at:

procurement.heathrow.com

For further information, please contact:

suppliers@heathrow.com

