

United Kingdom

Heathrow Airport Terminal 5



TYPE OF TOOL:
Project



MAIN SECTOR:
Transport



INFRASTRUCTURE GOVERNANCE PILLARS:
Efficient and effective public procurement

In a nutshell:



OBJECTIVE: The construction of a fifth terminal at Heathrow was aimed at maintaining the airport's position as the busiest in Europe.



Agency in charge
British Airports Authority (BAA)



Levels of government
National and sub-national



Year of implementation:
2002



Current status:
Operation



Value:
£4.3 billion

Overview:

In the early 2000s, the construction of Heathrow Airport Terminal 5 (T5) was the largest construction project in Europe. The British Airports Authority (BAA), a major airport operator that was privatised in 1986, realised that if the projects were to be built on time and within budget, a unique approach would be required. The foundation of the BAA's project management strategy was the T5 Agreement, a relational contract between the BAA and all the T5 first-tier suppliers. The Agreement was structured differently from traditional construction contracts. It aimed to create incentives for positive problem-solving behaviours in order to minimise the conflicts that had previously plagued major projects.

The BAA took a different and unique approach to risk in the T5 project – it held all the risk - deciding it would be the best way to achieve price certainty. As such, incentives were required to encourage all other partners involved in the project to minimise the risk. This was achieved through financial incentives for suppliers, rewarding successful performances. GBP 100 million was taken from individual projects and put into a central pot. This allowed the risk contingency to be allocated based on need. This contingency allowed greater control over the financial implications of risk at a more global level and thus tighter overall budget control.

Challenges: The BAA recognised that the only way it could achieve the desired outcome on a major project was to change the “rules of the game” by establishing a new type of partnership with its first-tier suppliers.

Lessons learned: By taking on and actively managing project risk underpinned by a bespoke contractual set-up, the BAA was able to pursue an innovative strategy that enabled suppliers to focus on delivery.

REFERENCES:

- National Audit Office, United Kingdom, Case Study BAA Terminal 5 Project, <https://www.nao.org.uk/defencefm/wp-content/uploads/sites/16/2013/02/BAAPICTerminal5.pdf>