

Item No. N/A	Classification: Open	Date: March 2017	Decision taker: Cabinet Member for Finance, Modernisation and and Performance
Report title:		Gateway 2: Contract award approval - LBS network procurement	
Ward(s) or groups affected:		All	
Cabinet Member:		From Head of IT Services	

RECOMMENDATIONS

1. That the Cabinet Member for Finance, Modernisation and Performance approve the award of a contract to London Grid for Learning Trust (LGfL) for a period of five years from 1 April 2017 for an estimated sum of £3,600,000 for the provision of network services. This includes wide area network (WAN) data connections, broadband connections, and the voice usage service
2. That the Cabinet Member for Finance, Modernisation and Performance notes that the contract is estimated to save the council £220,000 over the term of the contract and that there is flexibility to remove some services within the term dependent upon progress with the shared service. The annual cost will reduce in line with the services removed.
3. That the Cabinet Member for Finance, Modernisation and Performance notes that the contract costs are variable being based partly on telephone call charges, which will fluctuate with usage, and that future changes to requirements may influence the cost. Further that there will also be additional one-off costs from moves, adds and changes to the estates which have been estimated within the contract value.
4. That the Cabinet Member for Finance, Modernisation and Performance notes that in the event of any slippage in the signing of this contract, that the incumbent, Virgin Media Business (VMB), who are providing the service via LGfL, will continue to provide the services as detailed in this report under the roll over arrangements until the contract is implementable. If the contract is approved then the service will be provided under the LGfL arrangements from 1 April 2017.

BACKGROUND INFORMATION

5. VMB has been providing network services to the council through a Next Generation Network services (NGN) contract, initially awarded on 31 August 2012, and this is due to expire on 31 March 2017.
6. The current contract is made up of three service elements, with each service ending on either 31 March 2017, or 14 October 2018. The new proposal will re-commence all of these contract elements together at the same time, with no early termination charges applied.

7. The current services provided by VMB to the council include the following components:
- The installation and management of a virtual private network that connects over one hundred and seventeen council sites (using IVPN fibre and IVPN broadband circuits) to the main VMB multi-protocol label switching (MPLS) network.
 - Dual circuit provision (for certain sites only) for a resiliency service.
 - Two ISDN30s circuits and six standalone business broadband lines.
 - Managed internet access, and the provision of SIP trunks for the council's VOIP solution.
8. The Gateway 1 report noted that the single supplier negotiations were being undertaken with London Grid Limited. However, following discussions with London Grid and review of the legal documents it has become clear that the contracting party noted as part of the original OJEU is LGfL. Award of contract would therefore be to LGfL.
9. **Procurement project plan (key decision)**

Activity	Completed by/Complete by:
Forward Plan (If Strategic Procurement) Gateway 2	09/12/2016
Briefed relevant cabinet member (over £100k)	09/12/2016
Approval of Gateway 1: Procurement Strategy Report	
DCRB Review Gateway 2:	20/03/2017
CCRB Review Gateway 2:	23/03/2017
CMT Review Gateway 2:(if applicable)	N/A
Notification of forthcoming decision	23/03/2017
Approval of Gateway 2: Contract Award Report	31/03/2017
End of Scrutiny Call-in period and notification of implementation of Gateway 2 decision	10/04/2017
Alcatel Standstill Period (if applicable)	N/A
Contract award	10/04/2017
Add to Contract Register	17/04/2017
TUPE Consultation period (if applicable)	N/A
Contract start (Refer to paragraph 5)	01/04/2017
Publication of award notice in Official Journal of European (OJEU)	N/A
Publication of award notice on Contracts Finder	21/04/2017
Contract completion date	31/03/2022
Contract completion date – if extension(s) exercised	N/A

KEY ISSUES FOR CONSIDERATION

Description of procurement outcomes

10. VMB is the current supplier for the network supplier services, following a procurement exercise in 2012 by LGfL. The LGfL is a framework that already has a well-established working relationship with VMB, and therefore this framework allows the council to take advantage of this relationship to provide a new contract transition of these services within the available time constraints.
11. The sourcing of the network services will be at the same cost or less than currently being charged, whilst maintaining the current levels of high performance which is imperative to the council. VMB have also developed a very good working relationship with the council and provided high quality network services which will continue to provide stability and service continuity. VMB in soft market testing through LGfL has indicated potential savings of approximately £220,000 over the lifetime of the contract.
12. A different supplier providing the network services will cause significant service disruptions to the council. In addition, there is now only a limited timescale to safely implement a new supplier to commence the network services by 1 April 2017.

Key/non-key decisions

13. This report deals with a key decision.

Policy implications

14. The provision of this service is part of the digital strategy that has been approved by the council.

Tender process

15. A single supplier negotiation was undertaken with LGfL who let a contract for network services to run until 2028 under an EU compliant tender process under the umbrella name of TrustNet. The service provider under this contract is Virgin Media Business (VMB).

Tender evaluation

16. The contract has been successfully evaluated against the council's requirements for network services, value for money and accessibility against EU criteria.
17. The cost of the proposal was less than the current charges and soft market testing had shown that it was the most competitive. The network services being provided will be improved as part of the agreement to boost capacity and service levels. The risk involved in changing suppliers is mitigated by remaining with the existing network and service delivery teams.

Plans for the transition from the old to the new contract

18. Whilst the new arrangement will be with LGfL, they sub-contract the service to VMB. Therefore the effect of this is that the supplier for both old and new contracts remains unchanged which enables the council to manage the transition in the most effective manner reducing risk and transition cost. A formal project plan will be agreed with VMB to ensure that planned upgrades are completed with minimal or no impact to the council.

Plans for monitoring and management of the contract

19. LGfL customer support plan will form part of the agreement for the delivery of services provided by LGfL and VMB. The council's Corporate Service Delivery, Network and ICT Contracts Managers will manage and monitor contract performance and will work alongside LGfL and VMB service delivery team.

20. Expenditure will be closely monitored and reported within performance reports.

Identified risks for the new contract

21. The Identified risk are as follows:

Risk no.	Risk identified	Risk level	Mitigation
R1	The proposed contract with LGfL is for five years. This may not fit with the future operational or procurement models.	H	Negotiated with LGfL for flexibility with contract variation and termination clauses.
R2	Contract dispute between LGfL and VMB could impact services to the council	L	Terms and conditions have been built into the contract to protect the council from dispute, as the contract is directly with LGfL.
R3	VMB technology may become out-dated over the period of a five year contract term, and not provide the council with the required level of service	L	Negotiated terms and conditions within the contract for technology life cycle management.
R4	LGfL and VMB costs may escalate.	L	Contract includes capped increases linked to RPI.

Other considerations (for housing department works contracts only)

22. Not applicable.

Community impact statement

23. Through the implementation of lower cost, quality network services the council will be able to offer a more accessible and effective customer response to the community it serves.

Social value considerations

24. The Public Services (Social Value) Act 2012 requires that the council considers, before commencing a procurement process, how wider social, economic and environmental benefits that may improve the well being of the local area can be secured. The social value considerations included in the tender (as outlined in the Gateway 1 report) are set out in the following paragraphs in relation to the tender responses, evaluation and commitments to be delivered under the proposed contract.
25. Virgin Media has an award winning apprenticeship scheme active across the country and in London. Since 2008 nearly 900 apprentices have graduated from the scheme and in 2015 Virgin Media announced plans to recruit an additional 1000 apprentices over the following five years. This will include apprenticeships and job opportunities in the borough.

Economic considerations

26. The council is an accredited London Living Wage (LLW) Employer and is committed to ensuring that where appropriate contractors and subcontractors engaged by the council to provide works or services within Southwark pay their staff at a minimum rate equivalent to the LLW rate.
27. LGfL generic service agreement includes LGfL and VMB commitment to pay the LLW.

Social considerations

28. Refer to paragraph 23 above.

Environmental/Sustainability considerations

29. LGfL and VMB will be responsible for the provision and upkeep of network equipment and associated environments on behalf of the council. LGfL and VMB will be requested to support the council's efforts for minimising energy consumption and emissions of pollutants.

Market considerations

30. Service cost savings compared to the current service charge has been a target to be achieved, but also improved network specification and performance in areas of the council where this is required.
31. LGfL is highly utilised by schools to procure network services, however LGfL and VMB in partnership also have experience of providing network services to councils and currently provide similar network services to London Boroughs of Ealing, Hackney, Islington and Kingston.
32. LGfL and VMB have an extensive working history providing PSN services to all thirty three London Boroughs.

Staffing implications

33. This is being delivered within existing resources.

Financial implications

34. The procurement outlined in this report is to deliver wide area network data connections, broadband connections, and the voice usage service, for an estimated contract cost of £3.6m over the 5 year term of the contract. In comparison to the current cost for similar services the estimated annual contract cost at £720k is expected to be a saving to the council of £220k over the term of the contract. These savings fall short of the savings proposed by ICT and agreed by the Council for 2017/18 of £150k per annum and will require the division to identify alternative savings to bridge the gap.
35. As the IT shared service arrangements progress, this new contract provides the flexibility for the council to effectively transfer services to the new shared service. While it is not possible at this juncture to determine whether further savings will be derived, there is an expectation that there will some volumetric reductions and economies going forward.
36. The contract payments will continue to be approved by the Head of IT, but funding for the services is held by departments to which costs will be re-allocated / recharged periodically each year. This means that to avoid a budget pressure developing in the corporate ICT division, the expected savings will need to be allocated to departments in the form of a budget transfer.
37. With regard to inflation it should be noted that Section 9 of the Master Service Agreement (MSA) states:

“The Service charges:

- may be varied by London Grid for Learning Trust with 3 months' notice;
- may only increase in the first three years of the Agreement in accordance with the Retail Prices Index (all items excluding mortgages); and
- may increase at the end of the Initial Term in accordance with the prevailing market conditions and to secure the ongoing viability of the Services for all of London Grid for Learning Trust's Service Users, provided that in accordance with London Grid for Learning Trust's aims, London Grid for Learning Trust shall seek to limit any such increase so far as reasonably possible and in any event any increases in the Service charges shall not exceed 10% in real terms, i.e. over and above RPI, in total, during the Initial Term.”

38. Provision for inflationary pressure will be made as part of the annual budget setting process.

Investment implications

39. Not applicable.

Second stage appraisal (for construction contracts over £250,000 only)

40. Not applicable

Legal implications

41. Please see concurrent from the Director of Law and Democracy.

Consultation

42. Consultation in the preparation of the decision report has been undertaken with internal corporate departments including legal, finance and procurement.

Other implications or issues

43. None identified.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance and Governance (H&M16/070)

44. The strategic director of finance and governance notes the recommendation in this report to award a contract to London Grid for Learning Trust (LGfL) for a period of five years for an estimated sum of £3,600,000 for the provision of network services.

45. The contact is to commence on 1 April 2017 and to expire on 31 March 2022, a five year period over which the government grant to the council is expected to reduce considerably, and for which the council faces a considerable challenge to deliver a balanced budget.

46. When measured against current costs, this contract is expected to deliver an overall saving to the council of around £220k or £44k per annum, which is lower than originally anticipated and lower than the savings agreed as part of budget setting for 2017-18. Further savings will be required to substitute for this shortfall. It is noted that this may be realised through lower volumetrics over the life of the contract as the council enters into the new IT shared service arrangements with Brent and Lewisham councils, but this needs to be carefully monitored and reported.

Head of Procurement

47. This report seeks the approval of the cabinet member for finance, modernisation and performance for a contract for the provision of network services. The tender was negotiated as a single supplier negotiation with the London Grid for Learning, who will use the incumbent Virgin Media Business to deliver the services. The estimated contract value is £3,600,000 over 5 years.

48. The contract sum is made up of both fixed and variable elements, including telephone charges so this figure may vary but there is the potential to deliver a saving across the life of the contract of £220,000 against the rates currently paid. There are also some services within the scope of the contract that may be removed earlier than the 5 years, if required as part of the changing IT provision under the new shared service, so costs may reduce in line with any reduction in use of these services.

49. Paragraphs 20 and 21 set out the provisions for the monitoring and contract management of the contract, as well as requiring performance reports as set out in the Contract Standing Orders (CSOs).

50. The report confirms that Virgin Media Business (VMB) have an established apprenticeship and work placement scheme, that will include opportunities for Southwark residents.

Director of Law and Democracy

51. This report seeks the approval of the cabinet member for finance, modernisation and performance to the award of contract to LGfL for the provision of network services, as further detailed in paragraphs 1-5. As the estimated value of the contract is between £2-4m, the approval of this award is reserved to the relevant individual decision maker.

52. As the value of this contract exceeds the EU threshold, it is subject to the full tendering requirements of the Public Contract regulations 2015. However the TRUSTnet contract, through which this service will be procured, was established following an EU compliant OJEU process, and therefore satisfies those EU tendering requirements. The TRUSTnet contract was awarded on the basis that other local authorities were able to procure network services through it, and is therefore available for Southwark use. Whilst there is no further process of tendering when using the TRUSTnet contract, the council has evaluated the contract against the council's requirements, as noted in paragraphs 17 - 18.

53. Contract Standing Order 2.3 requires that no steps are taken to award a contract unless the expenditure involved has been included in approved estimates, or otherwise approved by the council. Paragraphs 35-39 confirm the financial implications for this award.

Director of Exchequer (for housing contracts only)

54. Not applicable.

BACKGROUND DOCUMENTS

Background documents	Held At	Contact
None.		

APPENDICES

No	Title
None.	

AUDIT TRAIL

Lead Officer	Mark Compton James, Head of IT	
Report Author	David Hatley, IT Contract/Commercial Manager	
Version	Final	
Dated	23 March 2017	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments sought	Comments included
Strategic Director of Finance and Governance	Yes	Yes
Head of Procurement	Yes	Yes
Director of Law and Democracy	Yes	Yes
Director of Exchequer (for housing contracts only)	No	No
Cabinet Member	Yes	No
Contract Review Boards		
Departmental Contract Review Board	No	No
Corporate Contract Review Board	Yes	Yes
Cabinet	N/A	N/A
Date final report sent to Constitutional Team		23 March 2017