

Item No.	Classification: Open	Date: 22 March 2017	Meeting Name: Cabinet Member for Finance, Modernisation and Performance
Report title:		Gateway 1 Procurement Strategy Approval LBS Network Procurement	
Ward(s) or groups affected:		All	
From:		Strategic Director of Housing and Modernisation	

RECOMMENDATIONS

1. That the Cabinet Member for Finance, modernisation and performance approves the procurement strategy outlined in this report, to undertake a single supplier negotiation with London Grid Limited (LGL) for the provision of network services. This will include the wide area network (WAN) data connections, broadband connections, and the voice use-age service, for an estimated contract cost of £3,600,000 over the term of the contract. The annual contract cost is estimated at £720,000. The proposed cost will also include the upgraded wide area network data service connections, and the addition of new internet resilience.
2. That the Cabinet Member for Finance, modernisation and performance notes that this is to be a five year contract to commence on the 1 April 2017 and to expire on the 31 March 2022. 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 traditionally cost approximately £30,000 per annum.
4. That the Cabinet Member for Finance, modernisation and performance notes that this contract is estimated to save the council £223,573 over the contract period equivalent to £44,714 per annum.
5. That the Cabinet Member for Finance, modernisation and performance notes that in the event of any slippage in this award, that Virgin Media Business will provide the services as detailed in this report under the roll over arrangements until the Gateway 2 is implementable. If the Gateway 2 is approved then the service will be provided under the LGL arrangements from 1 April 2017.

BACKGROUND INFORMATION

6. Virgin Media Business (VMB) has been providing network services to the council through a Next Generation Network services (NGN) contract, initially awarded on the 31 August 2012, and this is due to expire on the 31 March 2017.

7. The current contract is made up of three service elements, with each service ending on various dates (WAN services end 31 March 2017, SIP end 31 March 2017 and Internet end 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.
8. 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.
9. An earlier proposed transition to a new operational model for the whole of the IT service, known as Service Integration and Management (SIAM), was not successful at the initial stages of procurement. This would have meant if implemented, a single network tower arrangement. However, as a consequence, this new proposal will continue to provide the network services detailed.
10. VMB is the chosen supplier for the network supplier services, following a procurement in 2012 by LGL. The LGL is a framework that already has a well established working relationship with VMB, and therefore this framework could allow the council to take advantage of this relationship to provide a new contract transition of these services as detailed in paragraph 17 below, and 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. VMB in soft market testing through LGL has indicated potential savings of approximately £223,573 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.
13. VMB have already provided high quality network services to the council, and will continue to provide stability and service continuity if the council agree to undertake a single supplier negotiation using the LGL contract.

Summary of the business case/justification for the procurement Options:

14. Do nothing. The current contracts would "roll over" and service would continue, however, the contract prices would revert to standard pricing which would increase the cost by approximately £358,000 over the term of the contract.

15. Undertake OJEU procurement. There is insufficient time to undertake a full OJEU procurement process to replace the existing service.
16. OJEU compliant frameworks. The I.T. function undertook some soft market testing for potential replacement of the council's Network Services via the major frameworks. None of these external options, other than LGL, indicated a reduction in cost whilst all would represent significant change requiring additional IT resource, cost and risk. After due consideration, the option to remain with the incumbent, via the LGL framework, represented the best approach.

Market considerations

17. 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.
18. LGL is highly utilised by schools to procure network services, however LGL 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.
19. LGL and VMB have an extensive working history providing PSN services to all thirty three London Boroughs.
20. LGL contract infrastructure was sourced under the procurement cover of TRUSTnet, an EU compliant OJEU procedure (2013/S 245-427165). TRUSTnet is a £1billion contract that runs until 2028, and enables London Grid Ltd to offer stable, cost effective, long term service delivery. Virgin Media Business (VMB) is contracted through the TRUSTnet Contract to supply a range of services which fit under one or more of the following 5 CPVs:

Table 1

CPV Code	Area
72000000	IT services: consulting, software development, Internet and support
48219000	Miscellaneous networking software package
64200000	Telecommunications services
64210000	Telephone and data transmission services
64215000	IP telephone services

KEY ISSUES FOR CONSIDERATION

Options for procurement route including procurement approach

21. The procurement options are detailed in paragraphs 14 to 16.

Proposed procurement route

22. As the contract value exceeds the EU threshold of £164k, network services would ordinarily need to be procured through an EU compliant process. The current contract expires on the 31 March 2017, and there is insufficient time to

complete a full EU procurement process. The LGL contract is a fully EU compliant contract with VMB as the only supplier. The contract offers an indication of potential savings of £223,573 on fixed prices over 5 years.

23. LGL is a purpose built procurement vehicle for public sector, that enables the council to quickly and efficiently secure supply of services from the IT and Telecoms sector without the need to run lengthy and costly additional procurements.
24. There is limited timescale to procure and implement services, LGL offers competitive market rates, and also reduces the risk associated with the implementation of a new supplier. Therefore, a single supplier negotiation is the proposed procurement route.

Identified risks for the procurement

25. The Identified risk are as follows:

Risk no	Risk identified	Risk level	Mitigation
R1	The proposed contract with LGL is for five years. This may not fit with the future operational or procurement models.	H	Negotiate with LGL flexibility with contract termination clause.
R2	This procurement may not be completed before the end date of the current contract. This could invoke a monthly service cost increase of 15% above the current service charge.	H	Ensure that the procurement process is delivered on time, and negotiate with VMB to prevent charges.
R3	Legal compliance for this procurement maybe challenged, and require full procurement process applied	L	Ensure that procurement compliance and legal compliance has been applied to this process
R4	Contract dispute between LGL and VMB could impact services to the council	L	Terms and conditions will be built into the contract to protect the council from dispute, as the contract is directly with LGL.
R5	LGL is primarily an education business framework, with all thirty three London boroughs using this framework, and may not offer the required levels of service for the council,	L	Service levels will be implemented within the terms and conditions of the contract, and the council will have the flexibility to implement, amend or change these.
R6	VMB technology may become outdated over the period of a five year contract term, and not provide the council with the required level of service	L	Negotiate terms and conditions within the contract for technology life cycle management.

Key /Non Key decisions

26. This report deals with a non-key decision.

Policy implications

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

Procurement project plan (Non Key decisions)

Activity	Complete by:
DCRB Review Gateway 1:	09/02/2017
CCRB Review Gateway 1:	16/02/2017
Approval of Gateway 1: Procurement strategy report	20/03/2017
Issue Notice of Intention (Applies to Housing Section 20 Leaseholder consultation only)	N/A
Forward Plan (if GW2 is key decision)	09/12/2016
DCRB Review Gateway 2: Contract award report	20/03/2017
CCRB Review Gateway 2: Contract award report	23/03/2017
CMT Review Gateway 2: Contract award report (if applicable)	N/A
Approval of Gateway 2: Contract Award Report	30/03/2017
End of scrutiny Call-in period and notification of implementation of Gateway 2 decision (If GW2 is key decision)	10/04/2017
Contract award	10/04/2017
Add to Contract Register	17/04/2017
Place award notice in Official Journal of European (OJEU)	n/a
Place award notice on Contracts Finder	21/04/2017
Contract start	01/04/2017
Initial Contract completion date	31/03/2022
Contract completion date – if extension(s) exercised	N/A

TUPE/Pensions implications

28. There are no specific staff resources linked to the current contract and TUPE will not apply.

Development of the tender documentation

29. Tender documentation are not required as this will be a single supplier negotiation using a fully EU compliant contract.
30. LGL contract documents are currently being reviewed by legal and procurement.

Evaluation

31. There will be continued evaluation of this proposal with LGL, specifically meeting with LGL to discuss and refine the finalised proposal, primarily based upon price, as the framework quality has already been assessed.

Community impact statement

32. 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

33. 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 wellbeing of the local area can be secured. The details of how social value will be incorporated within the tender are set out in the following paragraphs.
34. 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. 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

35. 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.
36. LGL generic service agreement includes LGL and VMB commitment to pay the LLW.

Social considerations

37. Refer to para 33 above.

Environmental/Sustainability considerations

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

Plans for the monitoring and management of the contract

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

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

Staffing/procurement implications

41. This is being delivered within existing resources.

Financial implications

42. The procurement strategy outlined in this report is expected to deliver wide area network data connections, broadband connections, and the voice use-age 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 £224k 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.
43. 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.
44. 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.
45. With regard to inflation it should be noted that Section 9 of the attached 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.”
46. Provision for inflationary pressure will be made as part of the annual budget setting process.

Investment implications

47. None

Legal implications

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

Consultation

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

Other implications or issues

50. None

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

51. The report seeks the approval of the cabinet member for finance, modernisation and performance for the procurement strategy for the provision of network services. The report sets out that the expected value of the contract is £3,600,000 over a five year period and seeks permission to enter into a single supplier negotiation with Virgin Media Business via the London Grid for Learning framework agreement.
52. The report sets out that this contract can funded by existing budgets and by working through the LGL framework, that this is likely to result in an annual saving against current costs of £223,573 over the life of the contract. The choice of procurement route recommended is in paragraphs 22 to 24 and is tight timeframe involved but is why the third recommendation with regards to this contract has been included.
53. The contractor VMB would pay LLW under the LGL Framework agreement.
54. The LGL Framework agreement sets out a minimum term of 5 years for a contract with some flexibility on annual take up of some services, but the risk of this with the change in IT provision to the council is something that would be taken into a consideration as part of any negotiation and reported back from the GW2 report.

Director of Law and Democracy

55. This report seeks the approval of the cabinet member for finance, modernisation and performance to the procurement strategy in relation to the provision of network services, as further detailed in paragraph 1. As the estimated value of the contract is between £2-4m, the approval of this procurement strategy is reserved to the relevant individual decision maker.
56. The scope and value of these services means that this procurement is subject to the full tendering requirements of the Public Contract regulations 2015 (PCR15).

However the TRUSTnet contract, through which it is intended to enter into single supplier negotiations with LGL, was procured following an EU compliant OJEU process, and therefore no further process of tendering is required. 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.

Strategic Director of Finance and Governance (21032017)

57. The strategic director of finance and governance notes the recommendations in this report for a single supplier negotiation for the provision of network services, including the infrastructure cost and the variable voice usage.
58. The contact is anticipated 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.
59. This report seeks approval to award a 5 year contract to Virgin Media Business for services that include wide area network(WAN) data connections, broadband connections and a voice use-age service at an estimated cost of £3.6m over 5 years.
60. When measured against current costs, this contract is expected to deliver an overall saving to the council of around £224k or £45k 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.

BACKGROUND DOCUMENTS

Background Documents	Held At	Contact
None		

APPENDICES

No	Title
None	

AUDIT TRAIL

Lead Officer	Mark Compton James, Head of IT		
Report Author	Michael Warren, IT Service Manager		
Version	Final		
Dated	21 March 2017		
Key Decision?	No		
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)		Yes	Yes
Cabinet Member		Yes	Yes
Cabinet Member		Yes	Yes
Date final report sent to Constitutional			21 March 2017