

Report

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| Report to: | Finance and Information Technology Resources Committee |
| Date of Meeting: | 13 September 2011 |
| Report by: | Chief Executive |

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| Subject: | Contract for Provision of Fixed Line Telephony Services 2011 to 2015 |
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ outline the outcomes of the tender for the delivery of fixed line telephony services.

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the contract for the provision of fixed line telephony services for the period September 2011 until August 2015, with an option to extend the contract for a further year, is awarded to Azzurri Telecom
- (2) that IT Services engages with the appointed contractor to implement the contract for the tendered services.

3. Background

- 3.1. The Council operates around 1,900 telephone lines of varying types across its Resources, from single analogue exchange lines serving small offices and home workers' locations to multi-channel digital services serving corporate offices, all of which provide in and outbound access to the public switched telephone network (PSTN). Telephony services are used by all of the Council Resources, the South Lanarkshire Leisure and Culture Trust and the Lanarkshire Valuation Joint Board. Current annual spend for calls and rentals is around £800,000, accounting for over 7 million call minutes.
- 3.2. Since 2003, all of the Council's telephone lines have been provided from a contract held by the Global Services arm of British Telecom. Services provided under the contract include line installation, call routing, usage reporting/alerting, fault management, service and account management and electronic billing.
- 3.3. Lines and calls are delivered by OpenReach, the operational services arm of British Telecom with responsibility for the management of the telephone exchange network and the "last mile" cabling from the exchanges to customer premises, and for providing equal access to those resources at the wholesale level to providers such as British Telecom Global Services, Virginmedia. The regulatory environment is intended to promote competition and simplify the process of transition between communications providers in what is a very competitive marketplace.

4. Tender

- 4.1. Following an options appraisal involving Information Technology, Legal and Procurement Services, the tender was run under the Office of Government Commerce's Buying Solutions framework for fixed line telephony services. Contracts concluded under the framework terms are for a maximum four year term, plus an optional extension of up to one year. Twelve suppliers are party to the framework.
- 4.2. The tender specified that the contract would be awarded based on the price/quality weightings detailed in the table below.

| Heading | Evaluation Weighting |
|---|----------------------|
| Price | 35% |
| Capability, Delivery & Billing | 30% |
| Implementation & Account Management | 25% |
| Supplier Presentation & Customer Satisfaction | 10% |

- 4.3. The tender specified the retention of the Council's existing OpenReach-provided lines and associated telephone numbers and a range of legal, technical and contractual elements.

5. Evaluation

- 5.1. A total of five bids were received by the closing date in May, from Azzurri Telecom, British Telecom, Daisy Telecom, Talk Talk Business and Virginmedia Business.
- 5.2. The evaluation was carried out by Information Technology Services, with assistance from Legal Services and Procurement Services. Following a lengthy process of review and clarification, the evaluation concluded in early August.

6. Outcome

- 6.1. In summary, the outcome of the evaluation was as follows:

| Position | Company | Evaluation Score | Anticipated 4 year cost |
|----------|----------------------|------------------|-------------------------|
| 1 | Azzurri Telecom | 95.74% | £3.510m |
| 2 | Talk Talk Business | 94.65% | £3.194m |
| 3 | British Telecom | 94.36% | £3.700m |
| 4 | Virginmedia Business | 82.87% | £3.620m |
| 5 | Daisy Telecom | 77.10% | £3.512m |

7. Next Steps

- 7.1. Based on the overall scoring above it is recommended that Azzurri Telecom should be awarded the contract to provide fixed line telephony services to the Council for a four year period, with the option for one further year. Although the Azzurri offer is not the lowest cost, being around £300,000 more expensive over four years than the lowest cost bid from Talk Talk Business, the bid offers the best overall combination of price, delivery and service.
- 7.2. Legal advice states that there is no requirement for a standstill period between the announcement of the outcome and award of the contract. Letters to the unsuccessful tenderers will advise them of the scoring of their bids, comparative to the winning bid and de-briefing sessions will be offered to each of the unsuccessful applicants.

8. Transition

8.1. It is clear that a transition project will be required to define and manage the transition process and this will be established in conjunction with the supplier post award. A major consideration will be to avoid any disruption to operational telephony services – the process of transitioning individual lines is largely administrative and involves a change of call routing and ownership within the configuration of local telephone exchanges. Transition of lines to Azzurri would be expected to start in October 2011 and be concluded by mid January 2012.

8.2. The transition will require changes to ordering, billing, service delivery and management processes and will require input from IT Services Networks team members, the Finance Systems Team, IT Business Teams and managers within the South Lanarkshire Leisure and Culture Trust.

9. Contracting

9.1. The tender evaluation process included reviews of suppliers' compliance with the Council's terms and conditions and the general legislative background, and most of the issues that arose during the evaluation of the Azzurri Telecom bid have been resolved. A few remaining issues will be addressed during post-award negotiations.

10. Employee Implications

10.1. There are no employee implications.

11. Financial Implications

11.1. The Azzurri Telecom offer provides cost reductions across a range of telephone line rental charges, and charges for some calls will also reduce compared to the current contract pricing model.

11.2. Appendix 1, attached, provides a list of standard charges for line rentals and calls. This represents an annual saving of over £200,000 for line rentals based on an estimated level of activity.

12. Other Implications

12.1. In any transition from a contract/supplier of long standing there will be a degree of risk. An assessment of the risks associated with a change of supplier has been performed, and key risks are described below. The mitigation of these risks will form part of the post-award negotiation process and will form part of the Risk Register for the Transition Project.

12.2. The key risk is the establishment of a contract relationship with a supplier with no previous relationship with the Council that does not operate similar contracts in Scotland. However, it does manage several large contracts with English public sector bodies and a range of significant private sector contracts, where its customers report a positive and successful contractual relationship. The company has an operations base in East Kilbride, from where aspects of the service will be managed. Engineering services in respect of telephone line installation and fault management will continue to be delivered by OpenReach.

- 12.3. The supplier's proposal to use the relatively unknown Gamma Telecoms network to carry the Council's telephone calls between exchanges is identified as a risk. This network is however one of the largest telecoms networks in the UK. The risk is mitigated by Azzurri Telecom's proposal to use the British Telecom Wholesale network as fallback. The post-award negotiations will include the development of a Service Level Agreement that will include the contractual availability of the Gamma Network and the processes for fallback and recovery.
- 12.4. The transition to Azzurri will require a change of the billing system for telephony services. This raises an operational risk to existing billing processes which have been in place for several years, and may have an impact on the effort involved in managing the process of bill payment. It is expected that any impact would be short-term, given that it is in the contractor's interest to ensure that payment can be made quickly. The supplier has committed to ensuring that the billing implementation process is efficiently managed.
- 12.5 There are no implications for sustainability in terms of the information contained in this report.

13. Equality Impact Assessment and Consultation Arrangements

- 13.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and therefore no impact assessment is required.
- 13.2. There is also no requirement to undertake any consultation in terms of the information contained in this report.

Archibald Strang
Chief Executive

18 August 2011

Link(s) to Council Values/Improvement Themes/Objectives

- ◆ Value: Accountable, Effective and Efficient
- ◆ Modernising Government

Previous References

None

List of Background Papers

- ◆ Tender specification and supporting asset and pricing information
- ◆ Azzurri response to tender
- ◆ Responses to tender from unsuccessful applicants
- ◆ Returned Customer Satisfaction Surveys
- ◆ Various communications/clarifications between IT Networks and the applicants

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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Appendix 1

Call Tariff comparison

| Destination | British Telecom (Current) | | Azzurri (proposed) | |
|-------------------------------|---------------------------|-------------------------|--------------------|-------------------------|
| | Call Cost (p/min) | Minimum Call Charge (p) | Call Cost (p/min) | Minimum Call Charge (p) |
| Local | 0.50 | 0.00 | 0.67 | 0.00 |
| National | 0.63 | 0.00 | 0.67 | 0.00 |
| Vodafone ¹ | 6.90 | 2.80 | 5.50 | 0.00 |
| T-Mobile | 5.50 | 2.80 | 5.50 | 0.00 |
| O2 | 5.50 | 2.80 | 5.50 | 0.00 |
| Orange | 6.90 | 2.80 | 5.50 | 0.00 |
| Three | 7.50 | 2.80 | 8.90 | 0.00 |
| 0844 | 5.00 | 0.00 | 1.93 | 0.00 |
| 0871 | 8.60 | 0.00 | 8.20 | 0.00 |
| Directory Enquiries (118 707) | 50.14 | 0.00 | 49.71 | 0.00 |
| Timeline | 42.50 | 0.00 | 1.20 | 0.00 |

Comparative Call Charge totals (annual)

| Call Destination | Call Volume, 2009-10 | Call Duration, 2009-10 (mins) | Call Cost British Telecom | Call Cost Azzurri |
|------------------------------|----------------------|-------------------------------|---------------------------|--------------------|
| Local | 3,586,879 | 7,470,713 | £37,353.57 | £49,307.09 |
| National | 306,509 | 719,446 | £4,532.42 | £4,754.92 |
| Line to 08* Total | 390,940 | 876,083 | £28,947.39 | £23,079.92 |
| Mobile Vodafone ² | 338,801 | 457,534 | £31,569.84 | £26,013.58 |
| Mobile T-Mobile | 166,673 | 276,993 | £15,234.62 | £15,738.32 |
| Mobile Orange | 196,659 | 290,720 | £20,059.68 | £16,417.12 |
| Mobile O2 | 340,778 | 544,995 | £29,974.73 | £30,539.46 |
| Mobile 3 | 61,860 | 89,238 | £15,746.20 | £8,201.79 |
| Mobile Other | 415 | 682 | £51.15 | £44.99 |
| Directory Enquiries Total | 6,123 | 8,202 | £5,007.13 | £5,045.34 |
| Timeline Total | 2,949 | 1,825 | £775.63 | £18.74 |
| | | | £189,252.36 | £179,161.27 |

¹ Calls to Vodafone from the corporate network are routed via dedicated circuit, not via fixed line telephony services provider - calls from corporate network to Vodafone are charged @ 4.00ppm.

² This call volume represents calls made to Vodafone from sites that are not attached to the corporate network – schools, depots, branch offices, home worker locations, etc.