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THE RENEWAL OF THE CONVERGED NETWORK CONTRACT WITH BELL CANADA (BELL) AND THE RESULTING ASSUMPTION OF CERTAIN RESPONSIBILITIES BY THE REGION

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report dated August 24, 2010, from the Commissioner of Finance.

1. RECOMMENDATIONS

It is recommended that:

1. Council approve the Information Technology Services' Staffing Plan to perform network operations monitoring and technology assets management.

2. The Staffing Plan be funded from savings in the Information Technology Services' operating budget resulting from reductions in the converged network contract renewal with Bell.

2. PURPOSE

The purpose of this report is to inform Council of the Bell contract renewal and to seek Council approval for additional staff to carry out network monitoring and asset management activities that the Region is now responsible for.

3. BACKGROUND

Regional Council adopted the recommendation to award a five year contract to Bell for the supply, implementation monitoring and management of a converged network for the Region

In June 2005, Regional Council adopted the recommendation to award a contract to Bell for the supply, implementation monitoring and management of a converged voice and data telecommunications network for the Region. The award was for a term of five years with an option to renew for an additional two years. A products and services contract was negotiated and signed with Bell for the five year term commencing January 2006.

In December 2009, following extensive review and negotiation, staff exercised the renewal option, extending the converged network contract with Bell to December 31, 2012. As a result, starting in January 2010, data communications services rates and the

Region’s annual operating costs for Bell based converged network services are substantially lower.

Under the terms of the original Bell contract, the in-buildings network equipment (the Local Area Network or LAN, that connects the PCs, printers and telephones to the data centre; to the Bell telephone network; and to the Internet), was owned and managed by Bell. The Region paid Bell monthly fees to use the equipment. At the renewal option date, the contract gave the Region the choice to either de-install the equipment and return it to Bell or to purchase the equipment from Bell at fair market value. The Region opted to purchase the equipment and completed this purchase in December 2009.

As part of the monthly equipment rental fee, Bell provided a basic level of monitoring from Bell’s Network Operations Centre (NOC). Staff believe that the Region can perform this function for an annual cost that is lower than the rates Bell charges for NOC monitoring services. Therefore, some of the savings realized from the contract renewal are needed to provide staff to setup and operate a Region monitoring function.

In addition to monitoring, Bell provided a number of other services including asset management and network technical services as part of the converged network contract. Information Technology Services still requires these services but they are no longer provided by Bell under the renewal contract. Therefore, it is necessary that some of the savings from the contract renewal be used to provide staff to perform these functions.

4. ANALYSIS AND OPTIONS

Information Technology Services began a due diligence process by reviewing the quality and cost of converged network services received from Bell

Under the original Bell contract, the Region had the option to exercise a two year renewal stating in January 2011. In the fall of 2009 with the help of a consultant – Fox Group Consulting, Information Technology Services began a due diligence process by reviewing the quality and cost of converged network services received from Bell.

Fox Group reviewed the existing services agreement and the existing Bell rate schedules. They evaluated these in comparison to services available from other suppliers. Fox Group put the Region in contact with Activo Inc., a Canadian company that designs, installs and supports large, high speed Internet Protocol (IP) networks similar to the Region’s converged network. Using publicly available information, Activo produced an approximation of what they would charge the Region for similar and in some cases better network facilities compared to Bell.

The Region also met with Atria Networks. Atria owns and operates one of the largest fibre optic networks in southern Ontario. Atria offered to provide network services to the Region, for a minimum five year commitment.

Shortly thereafter, Bell submitted a proposal offering the Region significant discounts, starting in January 2010, if the Region renewed one year early.

Bell proposal as presented and subsequently negotiated, represented the best known alternative

Staff, with the assistance of Fox Group, analysed the Bell renewal proposal, as well as the other available alternatives. It was evident that both Activo and Altria may not be able to fully meet all Regional needs without significant additional capital investment. Furthermore, the disruption caused by switching to another provider would have impacted services to Departments. It was concluded that the Bell proposal as presented and subsequently negotiated, represented the best known alternative.
The Bell proposal provided substantial net savings (a 46% reduction) for the contract renewal which amount to a total of approximately $3.9 million over the next three years (based on an analysis of the November 2009 Bell invoice).

The new agreement switched responsibility for Bell supplied functions to the Region

The Bell supplied functions were**:**

a) Asset Management

Bell provided an on site project manager to do ordering, project management, installation management, invoice verification, service level reporting, problem root cause analysis and capacity planning and other aspects of asset management. In addition the Bell project manager performed service analysis functions for growth and new sites, under a statement of work (SOW) paid for from the capital budget at a rate of $1,600 per day. Most of the work continues to be focused on new sites, and SOW charges were becoming substantial. Under the renewal agreement, the Bell project manager has been withdrawn and the Region has assumed these responsibilities.

b) Network Technical Support

When Bell owned the network equipment, they provided technicians to install the equipment, configure the network software, trouble shoot problems, respond to Departmental requests to connect new equipment and manage these assets. Now that the Region owns the equipment, the Region assumes these responsibilities.

c) Single Point of Administration

The original converged network contract contained a number of customized and non-standard Bell services provided for a fee by Bell. These services were primarily in the area of managing the acquisition, delivery, billing and payments, service level issues and reporting for network assets. Specifically, it provided:

- A single contact to deal with all the different Bell divisions on technical and administrative issues
- A single invoice that consolidated the detailed billing from the various Bell divisions
- A monthly statement detailing each month's quantities of the various Bell services, a comparison to the previous month's charges and an explanation of the differences
- A single escalation point for billing, technical and service issues
- Access to a Bell portal for management information and reporting.

The Bell charges for these services increased substantially with growth and expansion. Staff decided to assume these functions by providing additional in-house resources, some of which are requested in this report. The remaining functions continue to be handled using Bell services on an as required basis.

d) Network Operations Monitoring

The approach the Region has taken is to manage the network internally with in-house resources for those functions that staff believe we can do well. At the same time the Region will continue to acquire other network functions and services that are beyond staff capabilities through the competitive service supplier selection process. To this end, the Region needs to start the processes of installing equipment and staffing an in-house monitoring capability.

The Region assumes some functions previously performed by Bell by hiring temporary staff

The Region has already begun assuming some functions previously performed by Bell, by hiring temporary staff. To effectively and efficiently manage the network, four positions are now required which will be funded through savings from the converged network contract renewal. The four positions are:

- Asset Project Manager
- Network Monitoring Analyst
- Network Performance Analyst
- Applications Performance Analyst

5. FINANCIAL IMPLICATIONS

The Bell renewal reduces by $1,300,000 for the next three years

The prices that Bell offered the Region beginning in 2010 are competitive with rates available from other vendors. The Bell renewal saves the Region approximately

$1,300,000 each year for the next three years on Bell converged network services, beginning January 2010.

The Region now subscribes to Bell's Network Managed Service for the network

As a consequence of buying the network equipment, the Region needed to subscribe to a basic monitoring service. Bell proposed their Network Managed Service (NMS). The Region now subscribes to NMS at a cost of $291,984 per year. Additional services beyond this basic service are charged based on a statement of work (SOW).

The Region now subscribes to Bell's Repair and Maintenance Service for the network

As a consequence of buying the network equipment, the Region needed to subscribe to a basic break-fix maintenance service. Bell proposed BellNet – their maintenance and repair service. The Region now subscribes to BellNet at a cost of $249,648 per year. Additional services beyond this basic service are charged based on a statement of work (SOW).

The Region needs to plan for the cost of refreshing old network equipment

The network equipment the Region purchased from Bell consists of equipment that is between one year and four years old. The Region amortizes this equipment over a five year time frame. This equipment will need to be refreshed. Information Technology Services has started to contribute a portion of the annual savings from the contract renewal to a reserve fund to replace old network equipment. Staff have determined that reserve fund contributions need to be approximately $350,000 per year.

The Region needs additional staff for functions the Region is now responsible for

An essential function to manage the network and to maintain network reliability is monitoring the state of the equipment. Staff have decided that the most cost effective way to provide monitoring and management of the network is to begin to bring these functions in-house. Information Technology Services have identified the need for four staff positions, as shown in the Staffing Plan, to provide these functions. The cost of these positions will be funded from operating budget savings resulting from the contract renewal.

Table 1
Summary of Annual Cost Savings and Additional Costs Resulting from the Bell Contract Extension

COST REDUCTIONS	Annually
Gross Cost Savings Resulting From Bell Reductions	1,842,000
Less:	
Cost for Bell Network Managed Service (NMS)	(292,000)
Cost for BellNet (Bell's Maintenance & Repair Service)	(250,000)
Net Cost Reduction	$1,300,000
ADDITIONAL COSTS	
Contributions to Equipment Reserve	350,000
Staffing Plan	450,000
- Assets Project Manager	
- Network Monitoring Analyst	
- Network Performance Analyst	
- Applications Performance Analyst	
Net Additional Expenditures	$800,000
Net Savings	$500,000

6. LOCAL MUNICIPAL IMPACT

There is no local municipal impact.

7. CONCLUSION

In summary, the Region has negotiated a renewal agreement with Bell that provides good value over the next three years for Bell services. It provides annual net savings of $500,000. However, needs have changed and Information Technology Services is in the early stages of starting the processes to manage, monitor, maintain and support all voice and data network equipment. To do so, additional staff, funded from the savings in the Bell contract renewal, need to be added to Information Technology Services.

For more information on this report, please contact Louis Shallal at Ext. 1752.

The Senior Management Group has reviewed this report.