Report author: Dave Maidment

Tel: 0113 37 84448

Report of: ICT Services – Head of ICT Strategy & Commissioning

Report to: Deputy Chief Executive

Date: 9th September 2016

Subject: Microsoft Enterprise Agreement Renewal 2016 - 2019

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☒ No
Is the decision eligible for Call-In?	☒ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ No

Summary of Main Issues

In 2007, following a competitive process to determine the core strategic information technology platform for Leeds City Council (LCC), Microsoft (MS) was awarded an Enterprise Agreement for software and services. This strategy would see a progressive strategic transition from Novell technology to Microsoft in the datacentre and a continued commitment to Microsoft on the desktop.

The last six months has seen another comprehensive review of our requirements for Microsoft software and associated licences. The options for direct savings have not been possible given that the last time we signed an agreement in September 2013 we exhausted all the realistic savings options (over 25% at that time). To quote the September 2013 report **'This overall level of saving is only guaranteed until 30th September 2016. Beyond this date, costs are likely to return to at least the 2012 level. In effect, LCC will be taking a 3 year payment reduction holiday.'** Therefore a significant increase in cost was anticipated this time. There has been an increase in cost but reassuringly not to the levels expected.

A key objective of the review has been to ensure that essential IT services are delivered and risks are managed. The decisions in terms of the licence types used and the insurance (software assurance) applied have been carefully considered in view of our requirements and strategic plans for the next three years. We have also considered Microsoft's future strategic direction.

Recommendation:

The Deputy Chief Executive gives approval to:

1. Enter into a new three year Microsoft Enterprise Agreement (EA) from 1st October 2016.

2. Commit to the utilisation of existing revenue budgets to pay the annual support and maintenance costs of the services acquired under this agreement.

1 Purpose of this Report

1.1 The purpose of this report is to articulate the requirement and recommend a decision to enter into a new three year Microsoft Enterprise Agreement (EA) from October 1st 2016.

2 Background Information

2.1 In 2007 following a competitive process, MS were awarded their first three year EA to provide software and services to LCC. This was a strategic commitment and two subsequent EA's were signed off in 2010, 2013 and it is proposed that a new agreement is signed with effect from 1st October 2016.

2.2 This long term commitment to MS for core information technology is a consequence of the original competitive exercise in 2007 which determined that Microsoft was the best overall option in terms of our core technical platform going forwards. This is coupled with the significant cost of a core technology change and the fact that completion of the original strategy to migrate from the previous 15 year old Novell platform was not fully completed until December 2013 (six years on).

2.3 The new EA will be the fourth MS EA since the strategic agreement between LCC and MS was first formulated in 2007. Licence prices and the associated terms & conditions are set for 'government' under a national framework and this framework is periodically negotiated between government and Microsoft typically every three years. The current version of the framework is called the 'Cloud Transition Agreement' (CTA) and the new EA which is proposed to commence on 1st October 2016 will be aligned to this agreement.

2.4 There are fundamentally two parts to the annual Microsoft software payment: i) The annual 'true up' which is a fee due for any extra new licences added in year i.e. 'growth' and ii) software maintenance which applies to the existing licence estate.

In 2016 we will add new licences as part of the 'true-up' because of some routine growth in certain areas and also because of some on-going projects, for example replacing our legacy Ericsson telephony system with 'MS Skype for Business'. This growth through specific projects is separately funded and is accounted for separately e.g. through the 'Essential Services Programme' (ESP).

The maintenance due on existing licences will be based on the new EA agreement scheduled to commence on 1st October 2016. This report focusses on the software maintenance element only; not new licences as a consequence of growth.

2.5 There are three broad types of MS licence models operating at this time. The first model is based on 'perpetual' licences, where the software licences are owned and run 'on premise' and this is the model LCC has tended to use in the past. There are some advantages to this model, in particular the option (if circumstances allow) to run the licences without 'software assurance' which means that maintenance does not have to be paid, however software versions are effectively frozen and cannot be upgraded. Other benefits are also forsaken if 'software assurance' is removed.

2.6 The second model is based on 'subscription' licences where the software licences are effectively rented. The advantage of this model is that software usage is typically at a lower cost compared with the equivalent 'perpetual' licence and there is also much greater flexibility in terms of 'trueing down' i.e. not paying for software when it is no longer required.

2.7 The third model is based on the 'cloud' where the software licences are also rented but the software is not usually running 'on premise' but in Microsoft's datacentre(s). Although we will almost certainly make extensive use of cloud computing in our next renewal in 2019, this is not a primary option for this renewal.

3 Main Issues

3.1 LCC ICT Services has been working over the past six months to determine the optimum MS licensing agreement for the new EA due on 1st October 2016. The opportunities for direct savings are not possible this time and there is actually an increase in cost. This was made very clear in 2013. The previous report stated **'This overall level of saving is only guaranteed until 30th September 2016. Beyond this date, costs are likely to return to at least the 2012 level. In effect, LCC will be taking a 3 year payment reduction holiday.'** Therefore a significant increase in cost was anticipated this time. There has been an increase in cost but reassuringly not to the levels expected.

3.2 The increase in cost for 'like for like' maintenance compared with the previous agreement is approximately £170K and represents a pressure on the current annual budget for maintenance of approximately £640K. The main part of this £170K increase is a result of not being able to use previous perpetual licences to cover our mobile devices and so these now need to be paid for separately on a subscription basis. Though a significant pressure on the ICT Services base budget, this extra pressure will have to be met by efficiencies generated from other areas e.g. Oracle licencing and telecommunications circuit reductions.

3.3 The most significant saving accrued last time around in 2013 was derived by switching off 'software assurance' (SA) on the MS Office platform i.e. Word, Excel, Power-point, OneNote. Because LCC owns the perpetual licences for the MS Office products, it can still use these licences without SA; however the removal of SA did impose some limitations. The first limitation is that LCC may only install versions of MS Office during the period through to 30th September 2019 up to the highest versions available as at 30th September 2013 (when SA was first taken off) i.e. MS Office v2013. In ICT Service's professional judgment, this does not impose any significant risk since we are only just starting to deploy Office 2013 across the organisation. The previous version was Office 2010. We have no plans or requirement to rollout a higher version of Office over the next three years. At the time this constituted a significant saving on the last agreement but keeping SA switched off does not allow an additional saving this time around.

3.4 The MS licences utilised by LCC are broadly divided into those used in the datacentre on our servers and those used on our client devices - PC's, laptops, tablets and smartphones. In the datacentre, the perpetual licence model will sustain and SA will apply to most of the licence estate. In the datacentre most of the servers are 'virtual' rather than 'physical' and therefore SA is mandated and cannot be removed. On the client devices it is advantageous in terms of cost and flexibility (true up and true down) to continue with subscription licensing for all components with the exception of the Office components which will be part of the payment holiday.

3.5 Another important distinction in the MS licensing model is the difference between 'user' and 'device' based licencing. Historically our licensing has always been device based. The advantage of this model is that more than one user can access a single device without penalty. The alternative model is user based licensing where the advantage is that if staff use more than one device e.g. a PC at work, a PC at home (to access web based mail and calendar services), a tablet in the field and perhaps a smartphone then only one licence is required. Having considered the options and acknowledging that the overall workforce is becoming more mobile, the time is now right to move to user based licencing. This now aligns with the majority of other local authorities. In the short term, this will incur a marginal extra cost but over the next three years this will be the most cost effective option overall.

3.6 Microsoft's clear strategy is to host all of its technology in the 'Cloud'. Cloud based 'Office 365' and the 'Azure' platform (hosting infrastructure (servers, storage, middleware) in the cloud) are central to Microsoft's future. This is why the current government agreement is branded the 'Cloud Transition Agreement' (CTA) and our proposed EA will be signed against this agreement. At the time of the next potential MS agreement in 2019, 'on premise' perpetual or subscription licences will not be priced as favourably as the equivalent cloud based licences. This will effectively force the utilisation of MS cloud platforms.

3.7 We are working with other public services across the city to agree plans for common shared technologies and consolidation. There will be choices and decisions that need to be made over the next three years. Taking the MS Office example, LCC and most likely partners will either adopt Office 365 in the cloud because it will be too expensive to run it on premise (for a range of reasons) or will use an equivalent technology from an alternative technology provider based on a 'best value' assessment. In summary 2019/20 will see far greater utilisation of cloud services most likely on a joint city basis. Realistically there will still be significant use of Microsoft technologies but equally there could be other key technologies emerging.

4 Corporate Considerations

4.1 **Consultation and Engagement –** There has been consultation across a range of stakeholders. The Deputy Leader and Executive Member for Resources & Strategy and the Deputy Chief Executive have been briefed and are satisfied that the agreement can be signed.

4.2 Equality and Diversity / Cohesion and Integration

User communities will not be directly affected by this proposal. To the 'end users' this agreement will be seamless and service levels will not be compromised.

4.3 Council Policies and City Priorities

Adopting this proposal will allow LCC to realise its strategy of consolidation around a preferred technology platform.

4.4 Resources and Value for Money

4.4.1 Full scheme estimate

The total value of expenditure for software maintenance on the new EA will be approximately £2.43M over three years. Existing revenue budgets will be used to fund this expenditure.

4.4.2 Capital Funding and Cash Flow

Capital funding is not required except where there is new licence growth for particular projects and this will be justified through separate business cases.

4.4.3 Revenue

The total value of expenditure on the new EA will be approximately £2.43M over three years. Existing revenue budgets will be used to fund this expenditure.

4.5 Legal Implications, Access to Information and Call In

4.5.1 This new EA is a continuation of the Microsoft strategy agreed by Exec Board in 2007.

4.5.2 This decision is eligible for 'call in' and has been posted on the List of Forthcoming Decisions.

4.6 **Risk Management**

The principal risk relates to the continued removal of Software Assurance on the MS Office suite for the three year duration of the new EA. Removal of SA means that LCC cannot deploy Office beyond v2013 during the three year period. Given that we are only just deploying v2013 then this will not present a problem for the next three years.

5 Recommendations

The Deputy Chief Executive is requested to authorise that the Council:

5.1 Enter into a new three year Microsoft Enterprise Agreement (EA) from 1st October 2016.

5.2 Commit to the utilisation of existing revenue budgets to pay the annual support and maintenance costs of the services acquired under this agreement.

6 Background documents[1]

6.1 None.

[1] The background documents listed in this section are available for download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.