Report author: David Pearson
Tel: 0113 37 84331

Leeds CITY COUNCIL

Report of: **Digital & Information Services – Head of Strategy & Solutions**

Report to: **Director of Resources and Housing**

Date: **15th August 2019**

Subject: **Approval to award a call off agreement through the Council Software Framework (LCCITS150046) for Microsoft Enterprise Agreement (EA) Renewal 2019 - 2022**

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:	☐ Yes	☒ No

Summary of Main Issues

1. Microsoft Ltd (MS) have previously been awarded an Enterprise Agreement for software and services. This provided core, strategic Information Technology platforms in the datacentre and a continued commitment to Microsoft applications on the desktop.

2. The last six months has involved a comprehensive review of our requirements for Microsoft software and associated licences. 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 subscriptions 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.

3. A significant increase in cost was anticipated on renewal which has previously been included in the Councils financial planning. This increase was due to the vendor's move to providing price discounts on 'Cloud' services (in line with the overall Public Sector Digital Transition Agreement - DTA), together with the end of the payment holiday for the MS Office product which cannot be extended further without introducing significant security and compliance risks.

Recommendations

4. The Director of Resources and Housing is requested to authorise that the Council:

- Enter into a call off under the Councils Software Framework (LCCITS150046) and enter a new three year Microsoft Enterprise Agreement from the 1st October 2019. The value of the agreement is approx. £5,700K (£1,900K payable annually).

- Commit to the utilisation of existing revenue budgets for the costs of the services acquired under this agreement annually).

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 2019.

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 Leeds City Council (LCC). This was a strategic commitment and three subsequent EA's were signed off (in 2010, 2013, and 2016) and it is proposed that a new agreement is signed with effect from 1st October 2019.

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 has been recently reviewed and other options evaluated during 2018 and 2019 to ensure this was the best value investment. This is coupled with the significant cost of a core technology change and the fact that other key partner organisations utilise this software.

2.3 The new EA will be the fifth 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 negotiated by Crown Commercial Services (CCS) and this framework is periodically negotiated between government and Microsoft typically every three years. The current version of the framework is called the 'Digital Transition Agreement' (DTA) and the new EA which is proposed to commence on 1st October 2019 will be aligned to this agreement.

2.4 Alternative software and services have been evaluated over an extended period and the decision to recommend Microsoft subscriptions has been validated by global, national and local bodies as providing the best return on investment.

2.5 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 and subscriptions which applies to the existing use of licences and software subscriptions. This report focusses on this second element only; not new licences as a consequence of growth.

2.6 The proposed new agreement is significantly different in composition from previous agreements as it reflects a transition from 'perpetual' licences, where the software licences are owned and run 'on premise' to a 'cloud' model where the software licences are subscription based and the software is not running 'on premise' but in Microsoft's datacentre(s). This renewal agreement will make extensive use of cloud computing. The Digital Transition Agreement' (DTA) referred to earlier, also reflects this change whereby wholesale discounts are now provided on the Cloud version of software but the same levels no longer apply to on premise licenses.

2.7 One of the advantages of entering an EA agreement is that it "locks in" pricing for the term of the agreement for any software products in use and any that may be required over the term of the agreement. This enables more accurate budget forecasts and financial planning as no price or market increases are applied during the contract term.

3 Main Issues

3.1 LCC Digital and Information Service (DIS) has been working over the past six months to determine the optimum MS licensing agreement for the new EA due on 1st October 2019.

3.2 The marketplace has been evolving since the last renewal with many vendors / suppliers (including Microsoft) moving from an on premise model (capital) to a Cloud annual subscription model (revenue) and have gradually applied significant price pressure to force a move to cloud services. This has been applied by significantly increasing prices to remain on premise (annual increases typically between 15-22%, cumulatively over 50% in the last 3 years) as well as offering incentives to move to Cloud services. Their stated intent is to move all software and service users (enterprise and consumer) to this new service model.

3.3 Microsoft's clear strategy is to host all of its technology in the 'Cloud'. Cloud based Office 365' and the 'Azure' platform (hosting infrastructure such as servers, file storage and middleware in the cloud) are central to Microsoft's future. Reflecting this move is the change from the 'Cloud Transition Agreement' (CTA) which has now expired and the move to the Digital Transition Agreement (DTA). 'On premise' perpetual licences will not be priced as favourably as the equivalent cloud based licences and this will effectively force the utilisation of MS cloud platforms. The option to continue like for like would see a significant increase in cost of approximately 52% and would only provide access to legacy versions of software. This is due to discounts no longer being applied to on premise software and market increases around 50% that have been levied since our last agreement in 2016 (which locked in pricing for the duration of the term and protected us from any increase).

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 and tablet devices. 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. This is attributable to the fact that that not all LCC systems are suitable for running in the Cloud. This means they will continue to be hosted in our Data Centres until they are Cloud ready, which could be some years away and would require re-development or re-procurement. The impact of this is that LCC will have some costs for on premise software as well as cloud subscriptions where dual running is happening.

3.5 A further consideration is that during the previous 2 agreements, LCC took a payment holiday for the MS Office product software assurance (saving around £2m over the previous 2 contract terms on maintenance). The main impact of this was to restrict LCC from adopting new product releases of Office and Email since 2013. For example this meant that we could deploy up to and including Office 2013 productivity software (word, excel ….) but not use Office 2016 or above without paying this cost or re-purchasing licenses. As with all holidays, these eventually comes to an end.

3.6 Compliance position – due to changes in various compliance frameworks & legislation (for example the Public Services Network / PSN) software must still be supported by suppliers through the provision of security updates (known as patches). To remain compliant requires regular version upgrades of software – thus the limitations to update software (per point 2) will, in the medium term, drive product change with the associated end of the payment holiday (per point 3). This now restricts our ability to "sweat the asset" for extended periods or use software outside of vendor supported time windows.

3.7 We are working with other public services across the city to agree plans for common shared technologies and consolidation. Currently Microsoft are also major providers to these partners such as the NHS and WY Police. From 2019/20 onwards we expect to see far greater utilisation of cloud services most likely on a joint city basis.

4 Corporate Considerations

4.1 **Consultation and Engagement -** the proposed renewal has been consulted on with a range of stakeholders. The Deputy Leader of the Council and Executive Member was briefed on the renewal in August 2019 as was the Director of Resources and Housing.

4.2 **Equality and Diversity / Cohesion and Integration -** New software features that directly impacts on end users i.e. use of Office applications on PC's, laptops and tablets will take into consideration the requirements of disabled staff in particular. In addition, this will enable the provision of enhanced accessibility features such as translation services.

4.3 **Council Policies and City Priorities –** Modern and 'fit for purpose' core ICT services and end user devices are fundamental in the business effectiveness and efficiency of the 11,000 staff in the organisation who use Digital Services as an essential and fundamental part of their daily work.

4.4 **Resources and Value for Money**

4.4.1 **Full Scheme Estimate**

The total value of expenditure on the EA contract will be approximately £5,700K over 3 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 license growth for particular projects and this will be justified through separate business cases.

4.4.3 **Revenue**

The total value of expenditure on the EA contract will be approximately £5,700K over 3 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 Enterprise Agreement is a continuation of the Microsoft Strategy previously agreed by Executive board.

4.5.2 This decision to award the call off is a Key decision which is eligible for 'call in' and has been published on the List of Forthcoming Decisions.

4.5.3 The agreement will be awarded on Microsoft EA terms and conditions which have been reviewed by the Councils procurement legal team.

4.6 **Risk Management**

4.6.1 The software subscriptions will be consistent with the current range of technologies presently being sourced by DIS and therefore the risk is minimal. If this agreement is not renewed, there is a high risk of additional costs and business failure as we operate on old and in some cases unsupported software.

5 Recommendations

The Director of Resources and Housing is requested to authorise that the Council:

5.1 Enter into a call off under the Councils Software Framework (LCCITS150046) and enter a new three year Microsoft Enterprise Agreement from the 1st October 2019. The value of the agreement is approx. £5,700K (£1,900K payable annually).

5.2 Commit to the utilisation of existing revenue budgets for the costs of the services acquired under this agreement.

6 Background documents

6.1 None.