

| Committee(s):  | Date(s):  | Item no.            |
|--|---|---------------------|
| <b>IS Strategy Board</b><br><b>Project Sub-Committee</b><br><b>Resource Allocation Sub-Committee</b><br><b>Finance Committee</b>   | <b>6<sup>th</sup> May 2014</b><br><b>7<sup>th</sup> May 2014</b><br><b>8<sup>th</sup> May 2014</b><br><b>27<sup>th</sup> May 2014</b> |                     |
| <b>Subject:</b><br>Options Appraisal – Microsoft Licence Agreement 2014  |   | Public              |
| <b>Report of:</b><br><b>The Chamberlain</b>  |   | <b>For Decision</b> |
| <p><b><u>Summary</u></b></p> <p><b><u>Dashboard</u></b></p> <p>Status – Green<br/> Timeline – Gateway 4 – To complete Gateway 5 by June 2014<br/> Total Estimated Cost - £1,068,000<br/> Spend to date - Staff time met from local risk.<br/> Overall Risk - Green</p> <p><b><u>Context</u></b></p> <p>The City uses Microsoft products on both desktops and servers. The main licensing agreement covering the majority (approximately 2000) of City staff concludes in June 2014 and a new licence agreement is required in order that the City may continue to use the currently deployed Microsoft products. Without a licence agreement the City will not be legally entitled to continue to deploy and use existing products. In addition, approximately 560 City staff are licensed using academic non-schools licences as this is the most financially advantageous method of licensing for them, the agreement for which concludes in December 2015.</p> <p>This report covers the renewal of Microsoft licences for approximately 2560 City<sup>1</sup> users for 3-years from the respective end date of the current arrangements.</p> <p><b><u>Brief description of project</u></b></p> <p>This project is to evaluate the Microsoft licence options available to the City and to procure appropriate licence agreements from Microsoft for the continued deployment and use of selected Microsoft products.</p> |   |                     |

<sup>1</sup> Excludes institutional departments – Schools, Barbican, Police

## Options

Table 1 shows estimated total licence costs for 3 years which are generally payable in three annual instalments.

| <b>Description</b> | <b>Option 1<br/>Minimum<br/>renewal</b> | <b>Option 2<br/>Full<br/>Subscription</b> | <b>Option 3<br/>Full<br/>Enterprise<br/>Agreement<br/>(EA)</b> |
|--------------------|---|---|--|
| Licence costs      | £660,000                                | £1,068,000                                | £1,252,000   |
| Fees               | £0                                      | £0  | £0   |
| Staff Costs        | £0                                      | £0  | £0   |
| <b>Total</b>       | <b>£660,000</b>                         | <b>£1,068,000</b>                         | <b>£1,252,000</b>  |
| Tolerance +/-      | 5%                                      | 5%  | 5%   |

Table: 1

nb: Full details of all of the options are available in paragraph 10 and appendix 1. Costs exclude licences for London Councils which are estimated at £39,000 and which will be recharged to and funded by London Councils.

Option 2 is the recommended option. The costs over 3 years are £184,000 lower than the licence costs for option 3, the full Enterprise Agreement (EA) licence, and some £320,000 below the 3 year cost of the current licence agreement.

Option 2 gives access to Microsoft products released up to June 2017<sup>2</sup> and will permit both City and City Police to align to a common IT roadmap and develop a common desktop using the latest versions of Windows and Office.

As Option 2 is for annual subscription licences, the costs will be treated as revenue expenditure rather than a capital purchase. Consequently, increases to the Chamberlain's revenue budget are being sought.

### **Recommendations**

That Members approve;

- the purchase of a 3-year subscription licence agreement from Microsoft at an estimated total cost of £1,068,000;
- an increase to the Chamberlain's budget in 2014-15 of £254,000 to be met from the Finance Committee's Contingencies; the Chamberlain to determine an appropriate methodology for the allocation from each contingency (i.e. City Fund, City's Cash and Bridge House Estates); and
- base budget increases of £332,000 for 2015/6, £352,000 for 2016/17, £109,000 for 2017/18 and £21,000 for 2018/19 - figures subject to tolerance of 5%.

<sup>2</sup> The Academic non-schools licence covers approximately 560 staff and runs through to December 2018.

### Next Steps

Finalisation of asset inventory audit to ensure staff and device numbers are correct. Gateway 5 report to be approved by The Chamberlain in order to proceed.

### Resource requirements to reach next Gateway and source of funding

4 days staff time to be met from existing resource.

### Procurement strategy

Procurement will be through PSA12, central government framework for Microsoft licence purchases.

### Tolerances

Staff and device numbers will vary over the term of the 3-year contract with true-up or true-down occurring on the anniversary of contract signing through to June 2017. Estimated tolerance is +/- 5%

## **Overview**

### **1. Evidence of Need**

The City uses a large number of Microsoft software products on both desktops and servers. The City's current Microsoft Enterprise Agreement<sup>3</sup> covering approximately 2000 City employees comes to an end in June 2014. A separate licence covering approximately 560 City staff eligible for cheaper academic non-schools licensing ends in December 2015.

Without the necessary licensing in place the City would cease to be entitled to install and run the latest versions of products and in the case of products which require an 'active' licence to fully function the City would no longer be able to deploy and use them, requiring alternative products where available to be purchased and deployed. Services requiring an 'active' licence include; the ability to run Microsoft Server and BackOffice products in a virtualised environment, remote deployment of software to the desktop and anti-virus. To all intents and purposes it is impractical not to renew and consequently the options appraised have been limited to partial and full renewal.

The City is working in conjunction with City Police to align to a single IT roadmap, use common products and collaborate wherever possible to reduce R&D and implementation costs. The City Police, with City assistance, procured a subscription based licence agreement from Microsoft in January 2014. The licensing approach recommended in this report aligns

<sup>3</sup> A Microsoft Enterprise Licence Agreement allows the City to install and run specified licensed products

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|  | <p>with City Police and underpins the future strategic direction and collaboration opportunities, this includes the joint development of mobile working solutions including the use of tablet devices on Windows 8.1 and later.</p> <p>Similar collaborative work will be progressed with Barbican Centre and other institutional departments where this is reasonably practical.</p>   |
| <b>2. Success Criteria</b>                           | <p>The selection and procurement of a Microsoft licence agreement to meet the needs of the City for the next 3 years.</p> <p>No unacceptable loss of IT service or functionality.</p>   |
| <b>3. Project Scope and Exclusions</b>               | <p>This report covers the procurement only of Microsoft licensing to legally entitle the City to continue to use the existing Microsoft desktop and server products as well as entitlement for the duration of the agreement to upgrade licensed products to the latest versions as they are released.</p> <p>This report does not cover hardware, consultancy or staff time costs which would arise from the future implementation of new software products.</p>   |
| <b>4. Link to Strategic Aims</b>                     | <p>This project links to all three strategic aims in as much as it enables staff to work efficiently and effectively and underpins services to visitors and guests. It also supports the strategic objective to work collaboratively with the City Police and institutional departments.</p>  |
| <b>5. Within which category does the project fit</b> | <p>7b. Major renewals, typically of a one off nature.</p>   |
| <b>6. What is the priority of the project?</b>       | <p>A - Essential</p>  |
| <b>7. Governance arrangements</b>                    | <p>The use of Microsoft software is largely controlled by Chamberlain's IS Division in consultation with departments.</p> <p>Major upgrades are overseen by IS Project Board, IS Strategy Board and Committee as appropriate to the project scale.</p> <p>The Gateway 2 report for this project was submitted for information to IS Sub-Committee in January 2014. The Committee acknowledged the increasing alignment with City Police, the current requirement to maintain a Microsoft licence agreement and the options to be evaluated.</p> |

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|  | <p>The City is now working closely with City Police who in January 2014 entered into a Microsoft licence subscription agreement.</p>   |
| <p><b>8. Resources Expended To Date</b></p>                  | <p>Approx. 12 days of staff time met from existing local risk resource.</p> <p>Approx. 2 days of Microsoft partner time – non-chargeable.</p>  |
| <p><b>9. Results of stakeholder consultation to date</b></p> | <p>The City and City Police Microsoft licensing arrangements will become aligned should this report be approved.</p>   |
| <p><b>10. Commentary on the options considered</b></p>       | <p><b>Option 1</b></p> <p>Partial subscription – This would ensure that essential software continued to function. It would however not give access to future versions of Desktop or MS-Office. This option would not fully align us with City Police, therefore curtailing the ability to develop a fully shared mobile working option and to a significant degree the developing vision of a more joined up, collaborative and shared service.</p> <p><b>Option 2:</b></p> <p>Full Subscription – Enables all current software to continue to function fully and enables future releases of software to be deployed.</p> <p>This option aligns with that chosen by City Police in January 2014. Having a common licence agreement will give us access to the same software, enabling us to develop a shared IT roadmap with City Police. The intended benefits of this approach include joint projects to deploy software and develop mobile working, thus reducing R&amp;D and deployment costs through the avoidance of duplication.</p> <p>Appendix 4 gives an overview of the Microsoft 5-year roadmap. Of particular interest to the City are future Windows Desktop and Office products and supporting products such as Lync which will underpin the City and City Police mobile working strategy.</p> <p>The 3 year cost of this option is £184,000 lower than the licence costs for option 3 and £320,000 less than the 3 year cost of the current licence agreement.</p> <p><b>Option 3</b></p> <p>Full EA – A full Enterprise Agreement is similar to a Full Subscription but with the addition that at the end of the term the City owns licences and could in theory take a</p> |

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|  | <p>licence break. Given the changes to the Microsoft license model the ability to break is increasingly less likely due to the essential functionality which would cease should a break be taken. The Full EA is significantly more expensive. For these reasons the subscription model is considered to offer the best value. Should the City wish to take a licence break in the future the option to do so will be the same as for option 2.</p> |
| <p><b>11. Consequences if project not approved</b></p> | <p>Some essential aspects of the City's IS infrastructure would cease to function. Some software would need to be removed and replaced. Replacement software would incur additional implementation cost in addition to the 3<sup>rd</sup> party software costs.</p>   |

**Information Common to All Options**

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| <p><b>12. Key benefits</b></p>                | <p>Maintains software in a usable state, ensures that server based products will continue to function in a virtualised environment, provides up to date anti-virus and continued use of the City's chosen method for deployment of software to the desktop.</p>  |
| <p><b>13. Programme and key dates</b></p>     | <p>May 2014 - Approval sought from IS Strategy Board and Committees.</p> <p>May/June 2014 – Finalise figures through audit of assets</p> <p>June 2014 – Agree Microsoft EA year 3 true-up, make final payment and close EA 2009 project.</p> <p>June 2014 – Agree future licence arrangements and sign contract with Microsoft through Phoenix (City Microsoft reseller partner).</p>  |
| <p><b>14. Constraints and assumptions</b></p> | <p>Requires Committee approval prior to existing Microsoft Agreement ending in June 2014.</p>  |
| <p><b>15. Risk implications</b></p>           | <p>Low risk if approved.</p> <p>The change from the current full EA (perpetual) licence to subscription is significant as it effectively ties the City into an on-going licence commitment. In order to cease this commitment it will be necessary to either change to Open Source or other desktop software or to purchase outright the required number of Microsoft licences at the end of the subscription term and replace subscription based products with 3<sup>rd</sup> party alternatives.</p> |
| <p><b>16. Stakeholders and consultees</b></p> | <p>Agilisys and Phoenix have provided Microsoft licence partner support.</p>   |

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|                                 | <p>City Police – to ensure our Microsoft licence agreements align.</p> <p>London Councils – advised of changes and impact</p>   |
| <b>17. Legal implications</b>   | Procurement is through a recognised framework last used in January 2014 by City Police  |
| <b>18. Funding strategy</b>     | <p>The City has had a Microsoft Enterprise Agreement since 2009 which was a capital purchase funded centrally.</p> <p>The recommend option is for a subscription licence agreement which means that capital funding is no longer appropriate.</p> <p>Members are therefore asked to approve:</p> <ul style="list-style-type: none"> <li>• an increase to the Chamberlain’s budget in 2014-15 of £254,000 to be met from the Finance Committee’s Contingencies; the Chamberlain to determine an appropriate methodology for the allocation from each contingency, i.e. City Fund (£800,000 uncommitted), City’s Cash (also £800,000 uncommitted) and Bridge House Estates (£70,000 uncommitted); and</li> <li>• base budget increases of £332,000 for 2015-16, £352,000 for 2016-17, £109,000 for 2017/18 and £21,000 for 2018-19 - subject to tolerance of 5%.</li> </ul> |
| <b>19. Procurement approach</b> | Procured through PAS12 framework giving highest level of discount available to public sector.   |

**Options Appraisal Matrix**

See separate document.

**Appendices**

|                   |                                  |
|-------------------|----------------------------------|
| <b>Appendix 1</b> | Options Appraisal Matrix         |
| <b>Appendix 2</b> | Purchase summary                 |
| <b>Appendix 3</b> | Financial phasing                |
| <b>Appendix 4</b> | Microsoft 5-year Product Roadmap |

**Contact**

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Appendix 1:

Options Appraisal Matrix

|   | <i>Option 1</i>  | <i>Option 2</i>  | <i>Option 3</i>   |
|---|--|--|---|
| 23. Brief description                                   | <p>Partial subscription –</p> <p>Minimum level of licensing purchased which is sufficient to ensure that essential software continues to function.</p>   | <p>Full Subscription –</p> <p>Licences all current software to continue to function fully, enables future releases of licensed software to be deployed and enables us to progress a shared IT roadmap with City Police, benefitting from joint projects to deploy software and thus reducing R&amp;D and deployment costs through lack of duplication of effort.</p> | <p>Full EA – A full Enterprise Agreement is similar to a Full Subscription however at the end of the term the City retains perpetual use rights to the software and could in theory take a licence break.</p> |
| 24. Scope and Exclusions (where different to section 3) | <p>It does not grant entitlement to future releases of Microsoft Desktop and Office nor the required client access licences in order to access updated versions of the Server and BackOffice products.</p> | <p>A subscription license model differs from the City's current Microsoft Enterprise Agreement in that there are no perpetual use rights.</p>  | <p>Extension of existing EA with full perpetual use rights.</p>   |

|   | <i>Option 1</i>   | <i>Option 2</i>  | <i>Option 3</i>   |
|---|---|--|---|
| 25. Benefits and strategy for achievement (where different to section 12) | <p>This option would not fully align us with City Police, therefore curtailing the ability to develop a shared mobile working option and to a significant degree the developing vision of a more joined up, collaborative and shared service.</p> | <p>Aligns with City Police and enables a shared IT roadmap to be developed.</p> <p>Subject to the appropriate Committee approvals, will permit closer working between City and City Police IT teams, progression to single shared IT function, sharing of research, development and implementation cost, reduction in overall cost of IT</p> <p>Moves the City to a subscription licence model which is becoming increasingly common and is the only way in which Microsoft licence some products. i.e.:- Office 365. The subscription model allows the City to true-down licences as well as true-up. This means should the City reduce staff complement or PC &amp; laptop device count the licence cost can be reduced at the next annual review point.</p> | <p>At the end of the term the City retains perpetual licence use rights and could in theory take a licence break.</p> <p>Given the changes to the Microsoft license model the ability to break is increasingly less likely due to the essential functionality which would cease should a break be taken.</p> <p>This option is significantly more expensive than the recommended option.</p> <p>An Enterprise Agreement does not permit true-down, thus a reduction in staff complement or device count during the life of the agreement would not yield a licence cost saving.</p> |

## Appendix 2: Purchase Summary

| Licence                                      | Dept                  | Qty  | Cost p.a             | 2014-15            | 2015-16            | 2016-17            | TOTAL                |
|--|-----------------------|------|----------------------|--------------------|--------------------|--------------------|----------------------|
| OfficeProPlus ALNG LicSAPk MVL Pltfrm        | City Depts - excl-ANS | 1994 | £40.35               | £80,457.90         | £80,457.90         | £80,457.90         | £241,373.70          |
| WinEntforSA ALNG UpgrdSAPk MVL Pltfrm        | City Depts - excl-ANS | 1994 | £13.17               | £26,260.98         | £26,260.98         | £26,260.98         | £78,782.94           |
| EntCAL ALNG LicSAPk MVL Pltfrm UsrCAL wSrvcs | City Depts - excl-ANS | 2023 | £30.35               | £61,398.05         | £61,398.05         | £61,398.05         | £184,194.15          |
| Active Select Agreement with SA shortfall    | City Depts - ANS      | 561  |                      | £11,016.40         | £0.00              | £0.00              | £11,016.40           |
| Active Select Agreement SA Renewal           | City Depts - ANS      | 561  | £148.33 <sup>1</sup> | £0.00              | £83,213.13         | £0.00              | £83,213.13           |
| Non-Server SA renewal                        | City Depts - All      |      |                      | £31,451.52         | £31,451.52         | £31,451.52         | £94,354.56           |
| Visio & Project 365 user                     | City Depts - All      |      |                      | £44,047.44         | £44,047.44         | £44,047.44         | £132,142.32          |
| Server SA Renewal                            | City Depts - All      |      |                      | £54,402.00         | £54,402.00         | £54,402.00         | £163,206.00          |
| SQL SCE Subscription                         | City Depts - All      |      |                      | £25,729.20         | £25,729.20         | £25,729.20         | £77,187.60           |
| Office 365 E3 Plan                           | City Depts - All      | 100  | £8.95                | £895.00            | £895.00            | £895.00            | £2,685.00            |
| <b>Subtotal</b>                              |                       |      |                      | <b>£335,658.49</b> | <b>£407,855.22</b> | <b>£324,642.09</b> | <b>£1,068,155.80</b> |

1. Cost is for three-year SA renewal for Academic Non-Schools licences

Appendix 3: Financial Phasing – allowing for accruals

| <b>Licence</b>                             | <b>2014-15</b>     | <b>2015-16</b>     | <b>2016-17</b>     | <b>2017-18</b>     | <b>2018-19</b>    | <b>TOTAL</b>         |
|--|--------------------|--------------------|--------------------|--------------------|-------------------|----------------------|
| City Depts – non-ANS <sup>1</sup>          | £243,481.57        | £324,642.09        | £324,642.09        | £81,160.52         |                   | £984,942.67          |
| City Depts - ANS renewal only <sup>2</sup> | £11,016.40         | £6,934.43          | £27,737.71         | £27,737.71         | £20,803.28        | £83,213.13           |
| <b>Total</b>                               | <b>£254,497.97</b> | <b>£331,576.52</b> | <b>£352,379.80</b> | <b>£108,898.23</b> | <b>£20,803.28</b> | <b>£1,068,155.80</b> |

1. Licences covering approximately 2000 staff

2. Licences covering approximately 560 staff. Current Academic non-schools licence runs through to December 2015. Renewal runs December 2015 to December 2018.

Appendix 4: Microsoft 5-year Product Roadmap

| Microsoft 6 Year Timeline |                     | 2014                 | 2015                 | 2016                 | 2017                 | 2018                 | 2019                 |
|---------------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| SQL Svr 2012              | SQL Svr 2014        | <i>Minor Updates</i> | <i>SQL 2014</i>      | <i>SQL 2014r2</i>    | SQL 2016             | SQL 2016r2           | <i>Minor Updates</i> |
| Windows Server            | Windows Server 2012 | Win Svr 2012r2       | Win Svr 2012r3       | Win Svr 2015         | Win Svr 2015r2       | Win Svr 2015r3       | Win Svr 2018         |
| Windows OS                | Win 8               | Win 8.1              | Win 8.2              | Win 9                | Win 9.1              | <i>Minor Updates</i> | <i>Minor Updates</i> |
| Office                    | Office 2013         | Office 15            | <i>Office 2013r2</i> | <i>Minor Updates</i> | Office 16            | <i>Minor Updates</i> | <i>Minor Updates</i> |
| Office Cloud              | Office 365          | Continuous           | Continuous           | Continuous           | Continuous           | Continuous           | Continuous           |
| Sharepoint                | Sharepoint 2013     | Sharepoint 15        | Sharepoint 2014      | <i>Minor Updates</i> | SPS 16               | <i>Minor Updates</i> | <i>Minor Updates</i> |
| System Centre (CM)        | SCCM 2012           | SCCM 2012 R2         | <i>Minor Updates</i> | <i>Minor Updates</i> | Wave 16              | <i>Minor Updates</i> | <i>Minor Updates</i> |
| SQL Svr                   | SQL Svr R2 2012     | <i>Minor Updates</i> | <i>SQL 2014</i>      | <i>Minor Updates</i> | SQL 2016             | <i>Minor Updates</i> | <i>Minor Updates</i> |
| Exchange                  | Exch 2013           | <i>Minor Updates</i> | <i>Minor Updates</i> | Exchange 2016        | <i>Minor Updates</i> | <i>Minor Updates</i> | <i>Minor Updates</i> |
| Lync                      | Lync 2014           | <i>Minor Updates</i> | <i>Lync 2014</i>     | <i>Lync 2015</i>     | Wave 16              | <i>Minor Updates</i> | <i>Minor Updates</i> |