

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL
EXECUTIVE MANAGEMENT TEAM'S REPORT TO THE
CABINET

Date: 5th March 2014

REPORT TITLE Renewal of Microsoft Software Licensing Agreement

Submitted by: Executive Director (Resources & Support Services)

Portfolio: Communications, Policy and Partnerships

Ward(s) affected: Non specific

Purpose of the Report

To seek approval to renew the Microsoft Agreement and Software Assurance contract to provide the Council with Microsoft Product pricing and orders, licenses and licensing services, following a procurement exercise to appoint a certified Microsoft Reseller.

Recommendation

That the Council renews its Microsoft Enterprise Agreement and Software Assurance for the supply of Microsoft products, licensing and software maintenance for a further three years, through the procurement and appointment of a certified Microsoft Reseller.

Reasons

- (a) The Council's existing five years contract for its Microsoft Enterprise Agreement and Software Assurance expires in May 2014.
- (b) Renewing the contract ensures that the Council can continue to use Microsoft desktop and server licenses and products that comply with legal requirements, whilst taking advantage of added value services.
- (c) The Microsoft Enterprise Agreement gives the Council the best overall pricing based on the size of the organisation; is flexible with licensing and services that can be increased or decreased throughout the life of the contract and provides simplified licensing management through a certified Microsoft Reseller.

1. Background

1.1 The Council currently has approximately 540 devices¹ in use. Data and applications are supported by over 200 servers, providing access to nearly 300 applications and services which are core to the day to day business of the Authority. For all Council services, both front and back office, an element of ICT provision is always required at some point and in almost every circumstance that provision will be underpinned by a Microsoft product.

1.2 All Council owned desktop computers and the majority of the Council's servers use the Microsoft Windows operating systems. Many of the Council's core ICT requirements such as file access, print, email and productivity software (e.g. Office) are all serviced by Microsoft products. Windows Server, Exchange, Office, SQL Server and many other Microsoft products directly underpin the provision of all Council services in some way.

¹ This number includes desktop pcs and Wyse terminals (both in use and in stock), and laptops. Wyse terminals are those that do not have their own internal operating system or storage, therefore providing a higher level of security. Instead, all applications and data are accessed from servers without the user seeing any difference.

1.3 In order to legally use Microsoft products, the council has to ensure that it has the correct types and numbers of licenses in place to be able to use software published by Microsoft. Under the current arrangements, the Council purchases and maintains its Microsoft obligations through an Enterprise Agreement, provided by a certified Microsoft Reseller. This allows the Council access to Microsoft software at discounted rates. The Agreement also includes optional Software Assurance which gives the Council added value and benefits.

2. Issues

2.1 The Council's Enterprise Agreement (EA) allows the Authority to access any Microsoft Software that is to be used across the organisation at any time and to receive upgrades as they are released. On an annual basis, ICT undertakes an exercise to ensure that the Council has the correct number and types of licenses and either purchases additional licences or reduces the number of licences required. This process ensures that the Council remains legally covered and that Microsoft remains satisfied with our software asset management (SAM) processes and there are no penalties incurred, legally or financially.

2.2 The Enterprise Agreement also attracts volume discounts on full prices for purchasing software and enables flexibility for the Authority to licence its Microsoft products in the most cost effective way possible. Most licenses purchased through the Enterprise Agreement are owned by the Council and can continue to be used indefinitely; the exception being where the Council by necessity buys subscription based licenses, which incur an on-going annual fee.

2.3 Software Assurance (SA) is also currently taken as an optional, annual subscription product as part of the Councils existing Enterprise Agreement. This is designed to work alongside the Enterprise Agreement to ensure that the Council maximises the benefits of the Microsoft products in use. The main benefits of this product are:

- Use of Microsoft products at multiple locations e.g. for home/agile working.
- License mobility for supporting service continuity.
- Unlimited Internet Based User Training
- 24x7 problem resolution support
- Home Use programme².
- Rights to new software releases at no additional cost

2.4 The Council's current five year contract for the Microsoft Enterprise Agreement and Software Assurance expires in May 2014.

3. Options Considered

3.1 Option 1: Do nothing

The current Agreement and Assurance be allowed to expire in May 2014. The consequences are:

- Cessation of home or agile working unless the Council purchases a variety of additional subscription based licenses at full price for each device that accesses the Council's network. This would considerably increase the cost of remote access.
- License mobility would be lost. The Council would no longer be able to freely move its product licences between physical devices (such as servers), which would be required in a business continuity or disaster recovery situation.
- Removal of internet training access for Microsoft products. All staff and members can currently access official Microsoft Training. Cessation of Software Assurance would remove access to these training facilities which in turn would limit ICT's ability to update staff skills for Microsoft products without incurring additional cost and resource for on-site training courses.

² The Home Use Programme enables staff to obtain the latest version of Microsoft Office to use on their home computers via a low-cost download. By using the same software at home and work, they can gain skills more quickly and improve their productivity at work.

- Cessation of 24/7 support impacts on ICT's ability to resolve user issues promptly giving rise to potentially unacceptable delays.
- The Council is required to continually update its software to ensure currency as part of its Public Services Network (PSN) compliance. In addition, in many cases upgrades are released to address known security issues which, unless applied, can leave the Council's network and applications vulnerable to external attack. New licences would need to be purchased at full price to ensure that the Council continues to receive updates should the Agreement not be renewed.
- Organisations that do not have Software Assurance in place are much more likely to be regularly audited by Microsoft. Under the terms and conditions of almost all software agreements, the software publishers have the right to audit their products using their own tools and staff at any point. They may also be accompanied by members of the Federation Against Software Theft (FAST) who are legally entitled to remove any (and all) unlicensed equipment from an establishment if sufficient licensing and licensing control cannot be proven.
- the Council would be required to purchase full price licenses for all its servers, remote access facilities etc. over the three years to maintain the Council's current services. In addition the Council would need to continue with its subscription based licences as required to maintain the Council's 'virtual' infrastructure. The realistic maximum amount of time the Authority could legally opt out of software assurance is three years due to the release cycle of Microsoft software and our requirement to remain on current versions of applications which are supported and updatable. Therefore, in year three, the Council would have to enter into a new Agreement with Software Assurance at full price, estimated to be £358,533.

3.2 Option 2: Move to a Subscription Based Agreement

Microsoft now offer a subscription based Enterprise Agreement (EA) which incurs a lower cost for software introduction (not purchase), but a higher annual charge which includes the optional Software Assurance element by default. The limitations of this Option are:

- Typically, licenses acquired through a normal EA are for perpetual use licenses (once the agreement is over you own the licenses). However, the licenses granted through the subscription agreement are not perpetual use licenses so at the end of the agreement your right to use the software ends. Therefore, at the end of the subscription period customers are faced with the option of making an additional payment as a "buy out" to purchase the licences in use or lose the licensing rights.
- The Council already owns most of its Microsoft licenses in perpetuity with the exception, by necessity, of those products that are subscription based.
- The subscription based model for the Council's requirements over a three years contract is approximately £310,000 which is a considerable increase on current costs.

3.3 Option 3: Move to alternative Open Source products

ICT are committed to introducing Open Source products wherever possible and continually review these operating systems and applications to determine their suitability. ICT have already deployed 'Linux' based authentication appliances, anti-virus and email filtering systems, and shortly the Council's main Content Management System will be replaced with an Open Source alternative. The Council's telephony system is also underpinned by 'Linux' based servers³ as are the customer facing payment machines at The Guildhall and Kidsgrove Customer Service Centres.

The limitations of moving to Open Source to replace Microsoft products are:

- The majority of the Council's key business applications require the Windows operating system in order to function e.g. IDOX Uniform, Civica Financials, Northgate Revenues and Benefits, etc. These integrate directly with Microsoft software such as Word and Excel in order to produce output such as reports or template letters which are generated

³ Linux the name of an Open Source operating system.

automatically and also use Microsoft databases to store information. Open Source alternatives are not supported by these application providers.

- The longevity and development of individual Open Source systems or applications cannot be guaranteed.
- Knowledge and usability. Most users will have come into contact with a Microsoft application in their normal day to day life. Moving to Open Source on such a scale would involve intense user retraining. Not only would this incur a considerable drop in productivity, but would also be of limited use as most officers (for reasons of compatibility) would still require a Windows and Office based PC.

3.4 Option 4 Move to Cloud Based (internet) “Software as a Service” provision

Microsoft Office 365, an Office alternative which is cloud based, is licensed on a flexible, per-user per-month subscription plan with predictable annual costs—enabling us to scale the services when it makes sense. Microsoft manages the IT software and ICT control the user access rights. Investigation by ICT has highlighted the following limitations:

- Government requires a higher level of security from applications and systems to adequately protect against information loss or compromise. Many Cloud services are only accredited to HMG Impact Level (IL) 2⁴. The Council stores some information and data at HMG Impact Level (IL) 3. Although some providers are now accredited to HMG Impact Level (IL) 3 these services attract premium costs.
- Cloud Productivity software, such as Office 365, does not provide cost savings for those organisations that have already purchased and own their licenses, as is the case at Newcastle. The Council has licences for Office Professional Plus at a cost of £51.29 per user, per year. Over the three years of the contract the cost is £153.87 per user. This is because the Council already owns up to date licenses through Software Assurance. The equivalent Office 365 product is £12.70 per month, per user. Over the three years of the contract, the cost is £457.20 per user.

3.5 Option 5 Renew the Enterprise Agreement and Software Assurance

In this Option the Council renews its Microsoft Enterprise Agreement and Software Assurance (SA) with a certified Microsoft Reseller for a further three years. The benefits are:

- the reseller works on behalf of Microsoft with ICT to ensure the Council remains legally compliant with Microsoft’s complex licensing arrangements over the term of the Agreement. This avoids the need for Microsoft to audit the Council’s licensing arrangements saving considerable resource in terms of additional staff time and cost.
- flexibility in licensing. During the three year term, the Council can add to or decrease the number and type of licences it holds ensuring that costs are controlled and continue to match requirements.
- maximise added value – costs for licensing are set by Microsoft and all resellers charge the same amount for products. However, differences exist in the “value added” services which suppliers can offer. Therefore, ICT would undertake a procurement exercise in order to gain the most advantageous arrangement for the Authority.
- ensures that the Council continues to benefit from its current SA arrangements
- ensures that the Council can continue to develop or change services without this technology being a limiting factor or restriction.

4. Preferred Option

The preferred option is Option 5 for the following reasons:

⁴ HMG IL refers to Impact Level of information if it was compromised in terms of three categories: confidentiality (potential impact if it were seen by unauthorised people) integrity (potential impact if the accuracy or completeness of the information is compromised) and availability (potential impact if the information becomes inaccessible). The higher the level; the more sensitive the information.

- ensures the Council remains legally compliant with Microsoft licensing through manageable and transparent processes; avoiding the need for onsite Microsoft audits to ensure Council compliance.
- Microsoft licensing is highly complex and would otherwise require significant additional technical resource to manage in house.
- provides added value to the Council in terms of the additional benefits obtained through Software Assurance. These include the availability and usage of Microsoft products (both server and desktop) for home and agile working, which would otherwise cease.
- lowest risk option – the option mitigates against risks shown in Section 10 of the report.
- lowest annual costs based on a three-year subscription. The Council already owns most of its Microsoft licensing and therefore, in these cases, only attracts maintenance costs.
- supports business continuity and disaster recovery by enabling Microsoft licensing and software to be reallocated to replacement servers and user devices in these situations.
- based on a three-year term, with the ability to add and adjust products and online services over time, the Enterprise Agreement offers pricing advantages beyond standard license and subscription pricing. Should you add new users or devices during your agreement, you can equip them with software and cloud services you are already using and then account for these changes through an annual reconciliation process known as “True Up.” The same principle applies to reducing licenses; known as “True Down”.

5. Recommendation

It is recommended that that the Council renews its Microsoft Enterprise Agreement and Software Assurance for the supply of Microsoft products, licensing and software maintenance for a further three years, through the procurement and appointment of a certified Microsoft Reseller

6. Outcomes linked to Sustainable Community Strategy and Corporate Priorities

The outcome supports “Becoming a co-operative council which delivers high quality community driven services”, by providing up to date, manageable technology that underpins efficient front line delivery of services to our citizens.

7. Legal and Statutory Implications

Although there are none relating specifically to the report, it is a requirement of compliance with the Public Services Network that the Council keeps its ICT infrastructure up to date and secure against external and internal threat; non-compliance could critically impact the ability to deliver statutory services such as Revenues and Benefits and Elections.

8. Equality Impact Assessment

No adverse impact has been identified as a result of delivering this proposal.

9. Financial and Resource Implications

Indicative costs for the renewal of the Microsoft Enterprise Agreement and Software Assurance are outlined below. Each year ICT undertake a ‘true up’ (increase) or ‘true down’ (decrease) exercise with the Reseller to ensure that the Council’s licensing reflects actual need and takes account of any changes that have occurred in that year. This will continue to be the case for the life of the new three years contract.

Costs shown below are based on 540 device licences being required. This figure does not equate to the number of actual users employed by the Council; rather it reflects Microsoft’s complex licensing structure and definition of what a ‘Qualified Device’ is for licensing purposes. This means that the number of licenses has to take into account the number of users and accessible devices (PCs, desktop devices, laptops, remote access devices), including any that are in stock and not currently in use. This figure can only be finalised with Microsoft up to 30 days before the end of the existing

contract, i.e. at the end of April, during which time ICT will undertake a full inventory in order to provide a final figure for Microsoft and Tender purposes.

Costs	Year 1 £	Year 2 £	Year 3 £	Total costs £
Revenue – Software Assurance (yearly maintenance)	77,487	77,487	77,487	232,461
<ul style="list-style-type: none"> • Client Access Licences • Desktop Operating systems • Productivity Software • Server operating systems • Server application software 				
One off purchase of additional licenses for new devices obtained during the last 12months ⁵	30,823			30,823
Total costs	108,310	77,487	77,487	263,284

Microsoft no longer provides a five years Agreement. The maximum terms are two or three years. Two years agreements are disadvantaged in that they cannot be extended to three years if required. Three years agreements provide better value for money in that the costs are constant over a longer term and therefore assist in financial planning. The prices in the latest Agreement (PSA12) have been centrally negotiated by the Government Procurement Service (GPS) and represent a cost saving when compared with charges made by Microsoft to its private sector customers, or those prices which the Council could achieve independently.

Costs of £30,823 can be met from the existing allocation within ICT Development fund (Planned Projects). Revenue costs of £77,487 can be met from revised budget allocations for Microsoft Licensing for 2014/15.

10. Major Risks

The main risks identified are:

- Failure to obtain a suitable Software Assurance (SA) agreement resulting in legal action by Microsoft.
- Failure to renew perpetual SA agreement resulting in increased costs for entering into subscription arrangements or meeting the immediate costs of liabilities of existing arrangement if opting out.
- Audit of license arrangements by Microsoft and Federation Against Software Theft, resulting in additional resource and officer time being dedicated to resolving issues.
- Inability to provide remote access for staff, Members and support contractors.
- Inability to adequately support development opportunities due to software usage restrictions.
- Limitations on the Council's virtual server infrastructure cause by the absence of SA resulting in additional expense.
- Inability to utilise new technology and applications without first re-purchasing licences, which may result in extended resolution times should a problem occur which requires a software update.

⁵ Each new device requires 3 new Microsoft licenses: one for the Office suite, one for the operating system and one for access to databases (the Council's applications). The total cost shown also includes licensing for an additional email server to comply with the new PSN requirements to separate the PSN email link from the rest of the Council's network.

- Inability to train staff across the authority using on-line facilities or Microsoft allocated training vouchers – resulting in overall increased costs and greater dependency on external contractors.
- Failure to realise the added value offered by the SA elements.

A full risk assessment is available on request.