

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Cabinet Member for Finance and Resources

Date: 02/05/2023

Subject: Microsoft M365 Enterprise Agreement (EA) license and Unified support renewal May 2023

Report author (s): Anthony King, Enterprise Architect, Digital services

Responsible Director: David Tatlow, Strategic Director of Corporate Services

SUMMARY

H&F uses the Microsoft M365 suite of tools as its collaboration platform, including email, Teams, OneDrive and SharePoint, as well as other popular products like Word, Excel and PowerPoint. The Microsoft M365 licence and support contracts enable on-going access to these products, as well as providing access to the latest updates and security features.

Currently, H&F is about to enter the last year in a shared Microsoft M365 licensing agreement which has been procured through Royal Borough of Kensington & Chelsea (RBKC). The purpose of this report is to ask for approval to extend the services provided under the current three-year Microsoft Enterprise Agreement to run for a further two years from its second anniversary date of 31 May 2023. This will in effect start a new 3-year agreement with an expiry date of 31 May 2026.

Additionally, the current Microsoft support contract is due to expire on 31 May 2023, and approval is sought for a new one-year contract.

The proposed options for renewal will be through the existing RBKC led Microsoft Enterprise agreement (EA) and Unified support agreements, which includes Hammersmith and Fulham (H&F) and Westminster City Council (WCC) as participating authorities.

These renewals are required to maintain business continuity for all council wide business operations which are dependent on our Microsoft 365 platform.

The proposal contained in this report is supported by the Chief digital officer.

RECOMMENDATIONS

It is recommended that the Cabinet Member:

1. Notes that Appendices 1 and 2 in this report are exempt from disclosure on the grounds that they contain information relating to the financial or business affairs of a particular person (including the authority holding that information) under Paragraph 3 of Schedule 12A of the Local Government Act 1972.
2. Approves the procurement strategy where RBKC will continue to lead on Microsoft licensing and support contract procurement on behalf of Royal Borough of Kensington & Chelsea, Hammersmith & Fulham, and Westminster.
3. Approves a three-year extension of the existing Enterprise Agreement, led by RBKC, for the purchase of Office 365 licenses from 1st June 2023 to 31st May 2026, which was awarded to Trustmarque using Kent Commercial Services 'Software Products and Associates Services 2' framework.
4. Approves the shared award contract, led by RBKC, for the purchase of Office 365 support, from 1st June 2023 to 31st May 2024, from Microsoft using the Digital Marketplace G-Cloud 13 Framework, Lot 3: Cloud Support.
5. Approves the total funds required over 3 years for the purchase of Office 365 licenses and support services as set out in exempt Appendix 2, to be funded from the existing Digital services operational budget.
6. Approves the use of an Inter Authority Agreement to maintain Council trust, relations and commitment to collaboration and license management with RBKC.

Wards Affected: None

Our Values	Summary of how this report aligns to the H&F Values
Being ruthlessly financially efficient	Digital Services negotiated better pricing for new licence and support services and reduced the uplift in annual costs by identifying the types of licences which gives us best value for money.

Financial Impact

Expenditure for the operational costs of Office 365 licenses is contained within the Digital services' operational budget. The cost breakdown of the Enterprise Agreement and Unified Support is shown in Appendix 2.

The total budget available for these services in 2023/24 is £1.016m (comprising existing enterprise agreement, security licences and unified support through a shared contract with RBKC).

The annual cost of the decision to approve a three-year extension of the existing Enterprise Agreement, and a one-year extension to the Office 365 Support contract will be £1.226m and therefore an additional £210,000 per annum but will avoid significant cost increases in the future by locking in prices now for the next three years.

This extra cost in 2023/24 will be funded from the planned contribution to reserves for IT services. The current available reserve is £4.955m and this level will continue to be reviewed and increased as necessary as part of the annual budget setting process and the reserves strategy.

Implications completed by Alex Pygram, Head of Finance, Corporate Services, 18th April 2023. Verified by Sukvinder Kalsi, Director of Finance, 18th April 2023.

Legal Implications

The Council has power to purchase these services as they are incidental and conducive to the Council's functions.

There is power to carry out procurements jointly with other authorities. The proposal is that the Council's only contract would continue to be with RBKC. It would not have the power to enforce the contracts with the suppliers directly. RBKC would have to do this on the Council's behalf. It is therefore essential that there continues to be in place a robust Inter Authority Agreement to ensure that the Council's interests are protected and that the contracts with the suppliers can be enforced if necessary.

The enterprise agreement is a high value contract under the Council's Standing Orders. Since RBKC as the procuring authority has satisfied itself that the variation is permitted under the Public Contracts Regulations 2015 (PCR) the extension to the enterprise agreement is permitted under LBHF's CSOs which requires extensions of contracts of this value to be permissible under the PCR.

The contract for the purchase of Microsoft Office 365 support is a medium value contract under the CSOs. The direct award of this contract is permissible as it is in accordance with the terms of a framework which RBKC and LBHF are entitled to call-off contracts under. There is no alternative supplier available for this Unified Support. It is only available from Microsoft.

These contracts are above the threshold for public services contracts under the Public Contracts Regulations 2015. There is therefore a need for the procuring

authority to comply with the advertising and competition requirements in these regulations. In relation to the purchase of Office 365 licenses the procurement route was originally by way of a mini-competition from the Kent Commercial Services Software and Associated Services framework 2 which is available for use by local authorities. This contract is being extended by RBKC.

In relation to the purchase of office 365 support, this is being procured by way of a direct award under Lot 3: Cloud Support of the G-Cloud 13 framework, which is available to local authorities and which provides for appointment of suppliers by way of direct awards.

This is a key decision under the Council's Constitution and needs to be included in the list of key decisions on the Council's website.

John Sharland, Senior solicitor, Contracts and procurement
18 April 2023

Contact Officers:

Name: Veronica Barella
Position: Chief digital officer
Telephone: 020 8753 2927
Email: veronica.barella@lbhf.gov.uk

Name: Alex Pygram
Position: Head of Finance
Telephone: 07776 672 580
Email: alexander.pygram@lbhf.gov.uk
Verified by Sukvinder Kalsi, Director of Finance

Name: John Sharland
Position: Senior Solicitor
Telephone: 07979907148
Email: john.sharland@lbhf.gov.uk

Background Papers Used in Preparing This Report - none

Background

Microsoft Enterprise Agreement

1. H&F, RBKC and WCC have operated using a common set of collaborative tools (Microsoft Office 365) for the past eight years, initially to facilitate shared working practices. Office 365 provides access to applications like Outlook, Teams, OneDrive, SharePoint, Yammer, Project, Visio and many more. The tools provided are licenced per user and these licenses are purchased through the shared Enterprise Agreement (EA). Similarly, support for Microsoft Office

365 services has been provided by Microsoft through a shared annual support contract.

2. Microsoft have different licensing models with associated functionality which has to be assessed against the needs of H&F. Digital services has carried out the assessment and worked with Microsoft and Trustmarque to confirm the most cost-effective licensing model. The cost analysis is contained in Appendix 2 – Financial implications.
3. RBKC currently own and manage the supplier contracts for EA licensing and support as part of the shared IT service arrangement on behalf of itself, H&F, and WCC. The EA license and support contracts are due for renewal on 31st May 2023.
4. Microsoft have a promotional offer currently available as part of our existing Enterprise Agreement. This is an opportunity for cost avoidance of £354,661 and to reduce future licencing costs by extending the existing agreement via the Kent Commercial Services procurement route which would enable H&F, RBKC and WCC to take advantage of existing pricing for a period of three years, in effect an extension of two years on our current contract. This is only available for us to take advantage of at the end of the second year of the existing 3-year agreement, on 30th May 2023.
5. Therefore, we recommend that H&F continues with our current licensing model (Option 1) to maintain our cost-effectiveness while meeting our security and compliance requirements, especially if reviewed against a 3-year contract term.
6. RBKC are seeking approval internally through their governance process to award a three-year extension of the Enterprise Agreement contract to Microsoft by the appointment of Trustmarque through the KCS framework, and a one-year support contract through GCloud 13 on behalf of the three Councils: RBKC, H&F and WCC. That approval process is running in parallel to the local governance processes in H&F and WCC to ensure we can all take advantage of the licensing offer by the deadline of 30th May 2023.
7. Whether H&F continues to operate in a shared O365 tenancy with RBKC and WCC has been reviewed. In November 2020, H&F Digital Services undertook a feasibility study with a Microsoft partner to explore the options and costs involved in disaggregating H&F from the shared Office 365 tenancy. The total cost of delivering a sovereign H&F Office 365 service was estimated to be more than £1.2 million in addition to the internal H&F resource requirements. Disaggregating individual applications is very complex and it could easily take 9 to 12 months to disaggregate the main platforms depending on different approaches which vary in risk and end user impact. This approach and cost were revalidated with Microsoft in 2023. Currently, the recommendation is to stay on the shared platform given the cost of change.
8. Westminster and RBKC have a wider strategy to disaggregate their currently shared services, which will impact H&F if work is required on the O365 shared tenancy. It is anticipated that disaggregation will be initiated by one of the boroughs in the next 3 years. If disaggregation is agreed to be the right strategy for HF in the future, a decision paper will be required to approve the funding for

that work.

9. Microsoft has confirmed that if any of the parties disaggregate from the shared platform over the term of 3 years, the licensing costs will be locked through the new Enterprise Agreement and can be transferred to a new sovereign agreement.
10. The cost of the Enterprise Agreement has increased since the last EA renewal mainly due to the following reasons: increased features and services consumed by H&F to improve cyber security posture and improve integration for contact centres with Microsoft Teams and Netcall; Microsoft inflation increases negotiated with CCS and fluctuation in exchange rates.
11. The increased costs are partially offset by the strategy to move away from the previous hosting platform to Microsoft Azure, which enabled an MTFS annual savings of £300,000.
12. Microsoft operate at a national level within the UK. They have confirmed that they are unable to evidence social value at a local borough level. However, Microsoft do work with local authorities to provide social values such as developing digital training courses that are made available to everyone through LinkedIn, or in person at their Oxford Street location. Available training has been publicised to H&F residents through community engagement and Adult Learning routes.

Unified support

13. Separately, our current Microsoft support contract is due to expire 31 May 2023 and a new contract is required to ensure appropriate levels of technical support in line with the high-quality performance H&F requires from our Microsoft platform. A one-year support contract has been recommended in line with WCC and RBKC likely strategy to disaggregate. A one-year support contract will allow flexibility in selecting appropriate support levels for each authority in the future.
14. The cost of Unified support is calculated as a percentage of the overall consumption of Microsoft services. This has resulted in an annual uplift of £39,500. The uplift in unified support cost is mainly due to the migration into Microsoft Azure platform by H&F, WCC, and RBKC and Cyber security improvements.

Proposals and Analysis of Options

15. **Renew licensing and support contracts through RBKC – Recommended option.**

It is recommended to maintain and renew arrangements with RBKC as the contract lead for shared Office 365 services:

- 3-year contract for licensing, Enterprise Agreement
- 1-year support services, Microsoft Unified support.

The new license and support contracts will be owned by RBKC with H&F contributing to our part of the overall cost. The Council will only have a contractual relationship with RBKC and not the selected provider.

This option maintains our current services as well as locking in pricing for licensing for the coming three years, which will offset expected additional costs as shown in Exempt appendix 2 - Financial implications.

16. Do nothing – not recommended.

Doing nothing for these contracts is not a practical option as the Council would pay increased costs in the future when our current Enterprise Agreement expires in one year. By locking in the pricing now, H&F is offsetting increased costs of moving to a new E5 licensing model in the future of circa £354,662 as well as offsetting the expected inflationary increase of between 4-10% depending on when the new pricing model is agreed.

Additionally, the existing support contract expires in May 2023. Having an on-going support contract is essential in order to maintain a high quality of service and to enable additional specialist help in the event of a major disruption to our Microsoft 365 platform and all our associated applications, including email, Teams, documents and spreadsheets, SharePoint, OneDrive, Azure infrastructure.

17. Use a different procurement route - not recommended.

There is minimal financial benefit to using a different route as the Microsoft discount for local authorities is negotiated centrally by Crown Commercial Services and applies to all local authorities whatever their size. The current shared procurement vehicle via RBKC enables continuity and supports the short timescales which we need to achieve in order to offset increased costs next year if we do not take advantage of current additional discount offer.

Procurement summary

18. The authority's enterprise agreement and unified support agreement are obtained through RBKC's agreement with Microsoft. By doing this, we are following their procurement strategy and approach. This enables us to benefit from their procurement processes, including pricing and terms negotiations, which are based on the combined larger volume licensing commitment of RBKC and WCC. Additionally, it allows us to streamline our procurement processes and reduces our administrative burden, while ensuring we have access to the latest Microsoft products and technologies at a competitive price.
19. RBKC considered various options for procurement, including running a mini-competition via a procured framework. However, due to the tight timescale for responding to the Microsoft offer for the three-year period, this was deemed infeasible. Additionally, considering the number of RBKC's legacy systems and the potential for cost increases in the market, a mini-competition was determined not to be the best value or most reliable route to market. As a

result, RBKC sought a waiver from its Contract Regulations.

20. The conditions under which the waiver was sought is provided below.
 - (i) there are exceptional circumstances that have led to a need to depart from the Contract Regulations and evidence has been provided which demonstrates the waiver is necessary to achieve the Council's objectives; and
 - (iii) the contract is for works, services, or supplies that are required in circumstances of an emergency and as such could not reasonably have been foreseen.

Reasons for Decision

Microsoft Enterprise Agreement

21. Renewing the Enterprise Agreement (EA) and Unified Support contract is critical for H&F as it ensures continued access to Office 365 products and Azure. Without an active EA agreement, H&F would not have access to any Office 365 product, making the option of doing nothing unviable. Therefore, contract renewal is required to maintain uninterrupted access to the Office 365 products essential for the authority's daily operations.
22. Renewal of the EA aligns with the strategic vision of collaborative working, while using cloud-based tools for current and future collaboration solutions and is in-line with the Council's Digital strategy and the Government's "Cloud First" policy.
23. Increased use of the Microsoft cloud platform, Azure, is part of our Digital strategy to deliver agile future-proof platforms. We have confirmed we can design future disaggregation into our Azure platform to support separation in the future if that is required.
24. The Council avoids major disruption and the need to commission another complex programme of disaggregation work. The Council also avoids all costs involved in disaggregating now.

Unified support

25. Microsoft support is required to provide Digital Services with advanced support in resolving specialist technical issues and support with planning and complex Office 365 or Azure projects. The support contract also delivers enhanced support for our users and platform.
26. It allows the Council to benefit from the latest security updates and features from Microsoft, reducing the risk of cyber security threats and vulnerabilities.
27. Additionally, it ensures H&F has access to fast track and support team for escalation, which can help to quickly address critical issues and resolve technical problems.

Equality Implications

28. The approval of these proposals will not have any direct negative impact on any protected groups, under the Equality Act 2010.

Risk Management Implications

29. The report recommends extend the services provided under the current three-year Microsoft Enterprise Agreement to run for a further two years, to expire date on 31 May 2026 and to extend the current Microsoft support contract for further year. This will protect the Council from anticipated significant price increases due to the current economic climate, provide cost avoidance by drawing more services into the same agreement (and allow further services to be covered during the contract period) and enable the Council to continue to benefit from economies of scale by continuing to procure the MEA with RBKC and WCC. This is in line with the objective of being ruthlessly financially efficient.

Implications completed by: David Hughes, Director of Audit, Fraud, Risk and Insurance, 18 April 2023

Climate and Ecological Emergency Implications

30. Microsoft has a stated aim to become carbon negative by 2030, and by 2050, it will have removed all of its emissions since it was founded in 1975.
31. The Council has evaluated Microsoft environment policies. The terms have been outlined in Appendix 3. Microsoft is working across several initiatives to achieve its goals, including minimising impact of its operations; water replenishment projects such as supporting wetland areas and funding climate innovation ideas; and funding new carbon removal projects through its global innovation fund.

Implications verified by Hinesh Mehta, Head of Climate Change, 2 May 2023

Digital implications

32. The renewal of the Microsoft licences and associated support ensures service continuity for this critical suite of applications.
33. Office 365 is a true cloud system which can be accessed by our workforce from both corporate laptops and phones, as well as from personal devices, which contributes significantly to our overall IT resilience.
34. Digital services have been closely involved in defining and agreeing the new Microsoft support model, working closely with colleagues in RBKC and WCC to achieve the best value for money solution for our three Councils.

Implications completed/verified by: Veronica Barella, Chief digital officer, Tel 020 8753 2927

Local Economy and Added Value

35. Microsoft offers access to a suite of training and support packages as part of its national approach to Social Value in the UK as outlined in appendix 3, however, Microsoft does not provide evidence of Social Value at a local authority level.
36. The contract manager is recommended to work with relevant departments and partner organisations to continue promoting access to Microsoft's digital training offer to residents through community engagement activities.

Implications completed by: Oli Rahman, Head of Employment and Skills 19th April 2023

LIST OF APPENDICES

Exempt Appendix 1 - Changes in licence, support, and security

Exempt Appendix 2 - Financial implications

Appendix 3 – Microsoft Social Value and Environment Messaging