


<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">CABINET</p> <p style="text-align: center;">16 APRIL 2018</p>	
<p>PROCUREMENT OF SOFTWARE LICENSES FOR CLOUD-BASED COLLABORATION TOOLS</p>	
<p>Report of the Cabinet Member for Finance: Councillor Max Schmid</p>	
<p>Open report A separate report on the exempt part of the Cabinet agenda provides financial and legal information.</p>	
<p>Classification - For Decision Key Decision: Yes</p>	
<p>Consultation Procurement, Legal, Corporate Finance</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: Veronica Barella, Chief Information Officer</p>	
<p>Report Author: Howell Huws Head of Contracts and Operations</p>	<p>Contact Details: Tel: 020 8753 5025 E-mail: howell.huws@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. This report is seeking approval to undertake a procurement for Microsoft server and cloud collaboration tool licences. The licencing is required for the software LBHF uses to support business operation, in particular the provision of email through Office 365. Without this licencing, the council will not have email from 1st June 2018.
- 1.2. It is part of LBHF's strategy to use Microsoft's cloud collaboration tools enabling more flexible and collaborative working, in a joint arrangement together with the Royal Borough of Kensington and Chelsea (RBKC) and Westminster City Council (WCC). These licences must be procured by one of the councils, with the costs recharged to the other councils depending upon usage. The licensing agreement will be an Enterprise Agreement, which is the cheapest way to procure the software required at an organisational level.

- 1.3. The proposed procurement route for the server and collaboration licences is through a Crown Commercial Services (CCS) Framework No. RM3733, Technology Products 2, Lot 2 – Packaged Software. This procurement route provides significant discounts on the products to be bought against the list price. However, compared to previous prices paid by the council, the new framework has resulted in a significant increase to the cost of these licences. This increase is affecting all local authorities.
- 1.4. The procurement exercise is based on a further competition against a fixed list of licence value added resellers (VARs). Standard tender documentation and contract terms and conditions of award apply. The procurement is completed with an 80% price to 20% quality split as the items being procured are commodity items. There is little differentiation between which reseller would provide the licences to the councils.
- 1.5. RBKC will lead on the procurement exercise through calling off from the framework agreement. RBKC will procure a Master licence, with LBHF and WCC holding Affiliate licences. The financial obligation on RBKC as the holder of the Master licence will be offset by each council entering into an inter-authority agreement for recovery of costs incurred.
- 1.6. The contract is usage-based and can be reduced to zero if the council's strategy changes in the future and the requirement is to move away from current arrangements.

2. RECOMMENDATIONS

- 2.1. To agree the Business case & Procurement Strategy set out in Appendix A, contained in the exempt part of this report.
- 2.2. To undertake the procurement of Microsoft server and cloud collaboration tool licences to ensure the licensing required for the software LBHF uses to support business operation, in particular the provision of email through Office 365 ("Microsoft licences").
- 2.3. To note that the procurement will to be managed by the Royal Borough of Kensington & Chelsea (RBKC) who will hold the Master licence and that the Council will hold an affiliate licence.
- 2.4. To note that the RBKC route to procurement will be through calling off from the CCS Framework Agreement (No. RM3733, Technology Products 2, Lot 2 – Packaged Software).
- 2.5. That the Council enters into an inter-authority agreement with RBKC relating to the recovery of costs incurred in relation to the Affiliate Licences.
- 2.6. To note that the contract for the Microsoft licences will expire on 31st May 2021.

3. REASONS FOR DECISION

- 3.1. A Business case & Procurement Strategy is a requirement of the Council's Contracts Standing Orders.
- 3.2. These licences must be procured by one of the councils, with the costs recharged to the other councils depending upon usage. The three councils will renew the existing inter-authority agreement apportioning costs based on each council's licensing requirement and usage.
- 3.3. Moving to a new single Enterprise Agreement for Microsoft licensing will enable the three councils to continue using the existing cloud-based collaborative tools and realise further productivity savings.

4. PROPOSAL AND ISSUES

Background

- 4.1. LBHF makes use of common Microsoft cloud-based collaborative tools through a shared tenancy with RBKC and WCC. The rationale for this alignment was to increase the flexibility and collaborative working capability available to staff enabling significant productivity benefits to be realised. The existing three-year agreement expires in June 2018.
- 4.2. This arrangement needs to be continued in order to continue to make use of cloud-based email and storage beyond June 2018, and therefore a new procurement is necessary for the required licenses, based on the current total of 3,000 users with active accounts.
- 4.3. The selection and volume of licences required is driven by current business usage. LBHF has a number of measures in place to reduce the volumes required, for example:
 - Users who have not logged on for 2 months are disabled to reduce the number of licences required.
 - Users requesting Project and Visio licence are only granted the licence for three months before having to make another request to ensure that temporary usage does not result in a permanent licence liability.
- 4.4. For certain items, such as the Skype PSTN licence that allows calls to be made outside the council using Skype, a single licence will be bought in order to lock in the price. Otherwise all items licenced are based on actual usage by LBHF staff. Office 365 comes with a range of applications such as PowerApps or Flow, which are all bundled within the standard offer price, with no reduction in price if these are not required or used by the organisation.
- 4.5. Most licences involved are annual licences based on a true-up/true-down process, so if the number of staff changes, the number of licences required and therefore the costs will adjust at the end of the year. Some licences are subject to monthly charges, hence the importance of managing the users rigorously.

- 4.6. The new licencing Digital Transformation Arrangement (DTA) framework was published mid-February 2018 and goes live on 1st May 2018.
- 4.7. The new Microsoft licensing model delivers enhanced security to better protect the council's O365 accounts from cyber-attack. This component is required to support the council's new Desktop Strategy.

Microsoft licences

- 4.8. An Enterprise Agreement is the most economical way to procure Microsoft software. It also comes with other benefits (see Appendix B for details and take-up), such as:
- the right to install any new versions that Microsoft release during the term of the contract
 - a number of training vouchers, allowing a few staff to attend training courses in Microsoft software at no cost, and
 - the "Home Use Programme" which allows staff to purchase the latest versions of Office software for their own use at a minimal one-off cost, about £10.

Master and Affiliate licences required for single Office 365 deployment

- 4.9. To have a single incidence with a single email store across multiple organisations, Microsoft requires the organisations to be under the same Enterprise Agreement licence, with one organisation holding the Master and the other organisations operating as Affiliates to this organisation acting as the Master licence holder. LBHF needs to procure with RBKC and WCC a set master and affiliate licences, whereby one of the councils procures licences on behalf of all three councils, and is then responsible for recharging the other councils as required under an Inter-Authority Agreement. These licences will be on a subscription basis through an Enterprise Agreement. The licences will be procured for a three-year period.
- 4.10. It is therefore proposed that LBHF continues the current 'Master and Affiliates' subscription licence. RBKC will lead on the procurement exercise and purchase a Master licence and LBHF and WCC hold Affiliates against RBKC's Master. All three licences need to be procured at the same time under a single lead authority.
- 4.11. In the event of the three councils separating services, the licences would continue to be available to each of the councils until the termination of the Enterprise Agreement. The number of licences required and therefore the cost is entirely related to the software deployed, and this can be varied by each council independently.
- 4.12. This licensing approach will allow the councils to procure the collaborative and server licences needed:
- Collaborative tool licences – provides desktop access to the Microsoft Office suite of applications including Word, Excel, Outlook etc, together with collaboration tools built on SharePoint.

- Server licences – the server licences act as gateways to the collaborative tools and are required to allow the three councils’ staff to access the new software which will be procured.

4.13. Appendix A, contained in the exempt part this report, provides a breakdown of the differing licence requirements and indicative costs to purchase the licences.

5. OPTIONS AND ANALYSIS OF OPTIONS

Procurement Strategy

5.1. Software licenses and support are highly commoditised items where pricing is generally set at enterprise or government level via organisational agreements, government Memorandum of Understanding (MoU) or CCS frameworks. Microsoft offers the Government software at the lowest prices in the UK through the CCS’s new Digital Transformation Arrangement (DTA) with Microsoft. This will replace the current MOU with effect from 1st May 2018. The DTA is based on the following principles:

1. Cloud First – continue to support the Government’s ‘Cloud First’ policy (and new ‘Cloud Native’ vision). Help support customers realise the benefits of cloud, whilst recognising some may need ‘hybrid’ capabilities in the short/medium term.
2. Cybersecurity & Compliance – reduce the clear and present Cyber threat across UKPS and help customers prepare for GDPR.
3. Customer & Partner Satisfaction – flexibility to support changing customer needs, as well as Microsoft’s own ‘evergreen’ developments.
4. Consumption – support customers in deployment, in order to extract full value from their investments.

5.2. The value of the requirement is above the OJEU threshold of £181,302 and is therefore subject to the UK Public Contract Regulations 2015. Software licensing agreements applicable to these requirements have been identified as below. Options for sourcing the required licensing and support requirements are explored below.

Option	Benefits	Drawbacks
OJEU (restricted procedure)	<ul style="list-style-type: none"> • Greater level of market competition • Most recent market pricing and solutions 	<ul style="list-style-type: none"> • Timescales and Cost. • Highly commoditised items. • Unlikely to deliver better pricing than government MoU.
Kent, CCS or WCC Framework	<ul style="list-style-type: none"> • Pre-selected suppliers • Capable suppliers • Reduced tendering costs and timescales 	<ul style="list-style-type: none"> • Limited competition. • Pricing may be rigid (inability to access a government agreement).
Govt G-	<ul style="list-style-type: none"> • Commoditised 	<ul style="list-style-type: none"> • Requires a variant approach to

Option	Benefits	Drawbacks
Cloud Software as a Solution (Lot 3)	pricing <ul style="list-style-type: none"> • Ease of access 	licensing consistently applied to all boroughs. <ul style="list-style-type: none"> • Pricing may be rigid (inability to access a government agreement) and more expensive than an Enterprise Agreement under the Government MoU (PSA12 or CTA). • Master and Affiliate license scheme is not available via G-Cloud.

5.3. Of these options, the Framework route is likely to deliver the best pricing, and of these available, the CCS Framework charges the lowest commission. It is therefore proposed to make use of the CCS Framework No. RM3733, Technology Products 2, Lot 2 – Packaged Software.

5.4. CCS created this framework in accordance with best procurement practice, EU and UK Procurement Directives and Regulations. The procurement process is through a further competition via a viable framework. Given the commoditised nature of the requirement and the fixed pricing indicated in the MoUs the main factor at issue is individual VAR mark-up or discount.

5.5. The form of contract will be as specified in the framework. The evaluation panel will consist of the Head of Contracts and Operations at LBHF and the Head of End User Computing for the Shared Service.

6. CONSULTATION

6.1. There is no public consultation requirement.

7. EQUALITY IMPLICATIONS

7.1. There will be no negative impacts on protected groups from the procurement of these software licences.

7.2. Implications completed by Peter Smith, Head of Policy & Strategy, tel. 020 8753 2206.

8. LEGAL IMPLICATIONS

8.1. LBHF has general competence powers under s1(1) Localism Act 2011, as do RBKC and WCC. The proposed procurement and contractual arrangements described in this report fall within that power. Since the proposed procurement has a value net of VAT estimated to be greater than the threshold set out in the Public Contracts Regulations 2015, it must follow a procedure that conforms with the Regulations. The proposal to use the CCS Framework satisfies that requirement provided the RBKC is one of the authorised users of the Framework and the Council follows the call-in

procedure set out in the Framework. Procurement have confirmed that RBKC is named as a user in the Framework and that this call in procedure was used 3 years ago in the original procurement. The intention is that RBKC enters into a Master Agreement with Microsoft and at the same time LBHF and Westminster enter into a separate agreement known as an Affiliate Agreement which will enable LBHF and Westminster to be granted licences under the Master Agreement in return for a recharge payable to RBKC.

- 8.2. Implications completed by: Angela Hogan, Senior Solicitor (Interim), tel. 07825 237494.

9. FINANCIAL IMPLICATIONS

- 9.1. These are set out in the exempt part of the Cabinet agenda.

10. IMPLICATIONS FOR BUSINESS

- 10.1. Due to the nature of this procurement, there are no implications for local businesses and social and economic value considerations.

- 10.2. Implications verified by: Albena Karameros, Economic Development Team, tel. 020 7938 8583.

11. COMMERCIAL IMPLICATIONS

- 11.1. The report highlights that all three councils make use of a single set of Microsoft cloud collaboration tools enabling more flexible and collaborative working. It also highlights that the re-procurement options are limited.

- 11.2. The highlighted and recommended solution, that is likely to produce the most effective, efficient and economic outcome, is by calling off jointly from a framework agreement established by CCS. This will be by way of a “mini-competition” from the Value-Added Resellers (VARs) admitted to the framework agreement. It should be noted that the market for reselling Microsoft licences is not well-developed with only limited variation on price.

- 11.3. For practical purposes, these replacement licences must be procured by one of the councils, with the costs recharged to the other councils depending upon usage.

- 11.4. The licensing agreement will be an Enterprise Agreement, which is the cheapest way to procure the software required at an organisational level.

- 11.5. The proposed arrangement is compliant with the Public Contracts Regulations and the Council’s Contracts Standing Orders. Although no Contract Notice needs to be published, the RBKC will need to place a Contract Award Notice in the UK’s Contracts Finder once the award has been made.

11.6. Implications completed by Alan Parry, Procurement Consultant, tel. 020 8753 2581.

12. IT IMPLICATIONS

12.1. The council's staff collaboration strategy for IT is based on Microsoft's O365 tools which allows staff to work effectively from Bring Your Own Devices (BYOD) as well as corporate devices. Microsoft's Office products interface into existing council applications such as the Electoral Registration system, and the corporate document management system.

12.2. Microsoft is the market leader in providing collaborative productivity tools for both private and public organisations of our size and larger. The council's future IT strategy will include evaluation of the direction of travel for collaborative working and associated licencing tools and products.

12.3. IT Services is working with departments to reduce the requirement for licences wherever practical to drive down the costs to the council.

12.4. No personal data is affected by this contract as the contract relates to licences only.

12.5. Implications completed by: Veronica Barella, Chief Information Officer, tel. 020 8753 2927.

13. RISK MANAGEMENT

13.1. A decision on the business case and procurement strategy is time-critical and failure to procure the appropriate licences prior to June 2018 will result in the council having no solution in place, when the delivery of all council services are heavily reliant on having an appropriate solution in place. The decision must be made now to allow an appropriate and compliant procurement process to be completed within the required timescale.

13.2. Implications verified/completed by: David Hughes – Director of Audit, Fraud, Risk and Insurance, tel. 020 7361 2389.

14. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

LIST OF APPENDICES – contained in the exempt part of the Cabinet agenda.:

Appendix A - Business Case & Procurement strategy (inc. an options analysis)
Appendix B: Enterprise Agreement benefits