ODR: 18/12

OFFICER
DECISION RECORD

Date – 3rd September 2018

Subject

Microsoft Licensing

Type of decision – Key – Forward Plan reference CE71/18

Description

A change in contracting arrangements for computer licenses is required following recent changes in the Microsoft licensing policy and the removal of discounts available to Government bodies. This change reflects Microsoft's policy of encouraging organisations to migrate to a Cloud based solution. These changes would increase annual IT license costs by 115% unless a new contracting approach is adopted. These licenses cover all Microsoft products from server operating systems to desktop Office products, including Exchange e-mail and the Lync telephony system. Without these licenses the Council cannot operate the current IT systems.

Options

CICT, in conjunction with Northgate, have explored the options available. There is no option to continue with the current contracting and pricing structure which will come to an end on 31st December 2018.

Option 1 - Buy Out current Licenses.

The capital cost of buying out these licenses is £648,158, which would be funded via Prudential borrowing and repaid in line with Councils Minimum Revenue Provision policy over a five year period.
There would continue to be an annual charge of £152,182 for certain licenses that cannot be bought outright. This annual charge also ensures that key security updates would continue to be provided to the Council from Microsoft.

The license buyout will safeguard the Council for Public Sector Network and

Health and Social Care Networks compliance until 2023, provided there are no changes in Government requirements.

This option will align with the final end date for the Council's current IT contract. This provides an appropriate lead time for current IT industry technology changes to cloud based computing to become more embedded and avoid the Council being at the cutting edge of this change within the public sector. It is expected that cloud based solutions will be much more settled and financially competitive by 2023.

Option 2 – Go Cloud Based

Microsoft's preference is for all users, including Councils, to move to Cloud based computing. This would provide all of the current licenses the Council uses and offer new services based in the Cloud. This would mean moving services such as e-mail and file storage onto computer equipment owned and managed by Microsoft. Technically that equipment could be based anywhere in the world but current security requirements mean that equipment would be based somewhere in the EU.

Initial investigations into this option have raised a number of concerns. Whilst those are partly based around how the Council currently operates there are additional considerations. Microsoft, rather than Northgate, would be providing the core equipment upon which our network operates. The current IT contract would need a full review and penalties where Northgate do not fulfil their commitments to the Service Level Arrangements will not be reflected within any Microsoft agreements. By moving to the Cloud the Council will lose a significant degree of control over the IT functions that support the core business activities of the Council.

The ability to return from the Cloud at a future date would be very limited and as this solution is still relatively new for local authorities it is not recommended at this stage. The key concern is that future Microsoft licensing costs increase and the Council would have no option but to pay those increased costs.
There will also be implementation costs to support the migration from the current on-site arrangements to the Microsoft cloud. Those costs will be fully explored as a part of any business case in the future but the timing of the removal of the License discounts precludes such an option at this stage.

Option 3 – Continue as now with new Microsoft pricing

To continue leasing Microsoft licenses in the same manner as at present is not an affordable option at the new market pricing. The new pricing structure will mean an increase in annual costs of 115% compared to current costs, which is an increase of £259,785 p.a. from £226,848 p.a. to £486,633 p.a.

Financial Assessment of Options

The following table summarises the costs of the alternative options and shows that each of these options has a higher costs than the current arrangements over a five year period.

These costs are based on current pricing and are subject to final agreement with Microsoft.

Future Options	**Licensing Model**	**Annual Cost (year 1)**	**Capital Costs**	**5 year Cost** (including forecasted price rise in Year 4)
Not an option	Continue as now on current Microsoft pricing	£226,848	£0	£1,134,240
Option 1	Buy Out current Licenses - The Preferred Option	£152,182	£648,158	£1,466,346 (includes repayment of capital cost over 5 years)
Option 2	Go Cloud Based (Microsoft's preference)	£277,089	£0	£1,440,868
Option 3	Continue as now with new Microsoft pricing	£486,633	£0	£2,530,492

In financial terms Option 2 has the lowest forecast costs over the next five years, However, there are non-financial risks associated with this option. These risks would be removed by adopting Option 1 and over five years this option only costs £26k more than Option 2. Therefore, Option 1 is the recommended option.

Option 1 will result in an additional revenue cost of £61k for the 3 years from 2019 to 2021 and £76k for 2022 and 2023 and these amounts are not provided for within the MTFS. However, it is anticipated that the Council will benefit from a saving on the main IT contract arising from the 'RPI minus 2%' contractual uplift. This saving should be sufficient to offset the additional costs of adopting this option.

Nature of Delegation being Exercised

Under section 9 of Part 3 of the Constitution, an officer of CMT and their authorised representatives may take decisions and initiate action falling within their managerial or professional responsibilities in a number of categories including the following:-

Signing, negotiating or otherwise acting as the Council's representative, as necessary to implement a decision, or in connection with the day to day management of Council business, subject to the financing and legal implications being approved by the Director of Finance and Policy and/or Chief Solicitor.

Decision

To approve Option 1 and to note that:

- Approval to use prudential borrowing of £648,158 will be included in the MTFS proposals to be referred to Council; and
- It is anticipated that the additional recurring annual cost of adopting Option 1 can funded from a recurring saving on the main IT contract.

Reason for Decision

External events have increased the annual costs of licensing Microsoft products that are needed to run the Council's IT business systems.

The recommendations identify the most cost effective way for the Council to manage those increased costs whilst ensuring the Council maintains an effective up to date network that continues to comply with the requirements for connection to the Public Sector and Health & Social Care networks.

Alternative Options Considered

Alternatives available at the current time have been detailed in the previous paragraphs. Adopting the recommended options ensure the Council can continue to operate and provides a longer lead time for the public sector cloud market to develop, which will hopefully result in future costs for adopting a Cloud based solution to reduce.

Conflict of Interest(s)

None known

REPORTING ARRANGEMENTS

In accordance with the Access to Information Procedure Rules, a record of taking this key decision will be reported to the Finance and Policy Committee.

OFFICER WITH THE DELEGATION

NAME:	**CHRIS LITTLE**
POST:	**Director of Finance and Policy**
SIGNED:	
DATE:	3/9/18

In consultation with:

(1)

NAME:	**GILL ALEXANDER**
POST:	**Chief Executive**
SIGNED:	
DATE:	3/9/18

(2)

NAME:	**HAYLEY MARTIN**
POST:	**Chief Solicitor**
SIGNED:	
DATE:	3/9/18

(3)

NAME:	**CHRISTOPHER AKERS-BELCHER**
POST:	**Chair of the Finance & Policy Committee**
SIGNED:	
DATE:	3/9/18