

Resources Department
7 Newington Barrow Way, London N7 7EP
Report of: Corporate Director of Resources

Meeting of:	Date:	Ward(s):
Key decision by Corporate Director of Resources	5/10/2021	List ward(s): N/A

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SUBJECT: Procurement Strategy and Contract Award for Microsoft Cloud Hosting and Licensing Agreement

1. Synopsis

- 1.1 This report seeks approval for the procurement strategy and contract award in respect of Microsoft Cloud Hosting and Licensing Agreement for a three-year period from 1st January 2022 to 31st December 2025.
- 1.2 The Microsoft Cloud Hosting and Licensing Agreement enables the Council to host its business applications and IT systems (e.g. Islington website) in Microsoft-managed data centres (also known as Azure) with Disaster Recovery capability. Additionally, the agreement covers licensing of our Microsoft Windows Server estate.

2. Recommendations

- 2.1 To approve the procurement strategy and contract award for a new Microsoft Cloud Hosting and Licensing Agreement to the value of approximately £1.5m for the procurement of Microsoft-managed datacentre services and licensing of the Windows server estate to Phoenix Software Ltd for a period of three years commencing 1 January 2022 via a direct-award call-off contract from the KCS Framework Agreement (Software Products & Associated Services 2 Y20011).
- 2.2 To note the importance of the Microsoft Cloud Hosting and Licensing Agreement for the efficient and effective delivery of Council services to businesses, partners, residents, and service users.

- 2.3 To further note the contribution to being carbon neutral by running services in Azure and delivering on support of social value, including commitments made specifically by Microsoft.
- 2.4 To note the additional growth of £247k in 2023/24 will be incorporated and funded through the MTFS.

3. Date the decision is to be taken:

18 October 2021

4. Background

4.1 Nature of the service

The Microsoft Cloud Hosting and Licensing Agreement allows the Council to legally host applications and software on licensed Windows server operating systems in Microsoft-managed datacentres in [Azure](#) as well as our residual on-premise servers in our data centres.

Hosting

The on-premise datacentres contained within our council buildings are no longer fit-for-purpose or sustainable. They are not resilient and present significant risk to the council. In particular the main data centre has been subject to flooding from the more extreme weather events we are experiencing. Building the data centre in Azure delivers tangible and significant business benefits, resilience and enhanced public reputation for a positive environmental outcome.

The proposal to migrate our applications into the Cloud and Azure, will deliver benefits around sustainable site development in the case of Newington Barrow Way (NBW); reduce water and energy consumption; remove potentially harmful material that can exist in data centres; and deliver practical options for improving the environmental position and contribute towards our carbon neutral goal for computing services.

The mechanical and electrical components such as uninterruptible power systems in the primary datacentre are nearing end of life. Furthermore, the power distribution units are situated in high flood risk locations within the data centre power and cabling risers.

With climate change, flash flooding events have been experienced and there is a very high risk that the data centre will need to be shut down in future events to avoid serious damage and long recovery times.

Over time, our systems have become less reliable, more expensive to maintain and carry significantly higher risk of failure. Additionally, as technology evolves, the power and cooling requirements increase and additional generators and backup power are becoming necessary. Weak power and cooling efficiency will also make compliance with environmental regulations exceedingly difficult.

Disaster recovery is also a key driver for migration to cloud. As part of the FutureWork programme, a new secondary datacentre site is required (currently at NBW). The migration to Azure as our secondary (and ultimately primary) data centre can be executed at relative speed

(to a physical data centre) and scaled as needed without the heavy lifting and shifting of hardware and infrastructure.

Islington Digital Services are also actively migrating applications and services to Software-as-a-Service model in the cloud managed by vendors. This inevitably means reduction in requirements for datacentre footprint and reinforces the viability and logic for the migration to Azure.

By migrating to Azure, the council will reduce their environmental impact of having three data centre sites within the council boundaries – operating on modern infrastructure that consume lower level of power and emit lower levels of heat.

It will improve services for residents and local communities by improving the availability of digital services, with service availability guaranteed to 99.99% leading to fewer incidences of loss of service.

Licensing

Hosting our services in Microsoft-managed data centres with Microsoft Server licensing are only available to be purchased from an authorised reseller, a company that purchases them with the intention of reselling them and cannot be purchased direct from Microsoft.

The current Microsoft Hosting and Licensing Agreement is due to expire 31 December 2021 and must be renewed.

The current agreement provides licenses for 452 servers that host our business applications, databases and systems delivered under the Server Cloud Enrolment. If these servers are not licensed, the Council would not be able to deliver services to businesses, partners, residents, and service users. All operations would have to revert to being paper-based processing. There is no alternative product that can perform the functions delivered on the Microsoft Server Operating systems.

The Council must maintain datacentre capability and a licensed estate for its servers. Microsoft Azure technology and windows server operating systems are fundamental building blocks for council infrastructure providing functionality to directly enable work across all the Council's priority activities. To minimise costs, the Council has been working with Microsoft and our reseller, to audit and right-size our datacentre footprint in Azure with appropriate licenses purchased to the number of licenses required based on utilisation.

4.2 Estimated Value

The new Microsoft Cloud Hosting and Licensing Agreement will be approximately £1.5m in total for the three-year contract and will include operating system licensing, and associated server and storage consumption. There will be cost avoidance with building, legacy infrastructure, cooling, power, and physical security.

One of the main drivers for hosting our data centres in Azure is that it can reduce capital expenditure associated with maintaining our own data centres. Azure will allow scaling up or down without financial penalty – the Council would only pay for what it uses.

The spend will be dependent on the number of servers and licenses needed and any additional storage the Council needs over the term of the agreement. Microsoft offer the same pricing discount to all public sector resellers, any increased costs are due to a combination of inflation, unfavourable exchange rate changes and the current Microsoft pricing for the Public Sector. There are notable indirect benefits around organisational performance and efficiency of continued running services using Microsoft products. To ensure we pay the lowest margin and get best value, the reseller must also offer added value to the Council in terms of social value and auditing our requirements and offering guidance and support as required.

4.3 Timetable

The current agreement started 1 January 2019 and ends 31 December 2021. The new agreement needs to be in place from 1 January 2022, when the existing Microsoft Cloud Hosting and Licensing Agreement expires.

The reseller must notify Microsoft by 14 December 2021 to ensure estate is licensed in readiness for 1 January 2022 when the new Microsoft Cloud Hosting and Licensing Agreement will start.

4.4 Options appraisal

In the interest of continued delivery of essential Council services to businesses, partners, residents, and service users, ceasing provision of the service is not a viable option.

Microsoft is a market leader in hosting data centre services of this nature. The specialist nature of services precludes the council from being able to replace the services with in-house developed alternatives. Switching to a competitor alternative to Microsoft Azure is cost prohibitive, would likely significantly reduce cross council effectiveness, risk unrecoverable reputational damage, and require impractical organisational change. Procuring a Microsoft Cloud Hosting and Licensing Agreement ensures the highest levels of discount available and 12% discount off all Azure Services. Additionally, saving up to 40% on servers and 55% on databases based on standard Microsoft pay-as-you-go pricing model giving us a potential total saving of up to 70%.

Advice has been sought directly from Microsoft followed by a deep dive analysis of our data centre services with Microsoft gold partner, ANS, to better understand the options available for licensing Microsoft products. The two options are to seek either a Microsoft Cloud Hosting and Licensing Agreement that is only available on a three-year contract or go outside of an Server Cloud Enrolment and carryout pay-as-you-go transactional licensing. A Server Cloud Enrolment provides the best discounts and price locks; therefore, we must proceed with a three-year contract. This also offers us best value for money.

A review of suitable framework agreements covering Microsoft Cloud Hosting and Licensing Agreement accessible to the Council has been undertaken. The recommended approach is to continue externally commissioning the service and use the same call-off contract used for the previous agreement. It is an established framework agreement and expedient route to market.

A call-off contract will be undertaken in accordance with the KCS framework agreement (Software Products & Associated Services 2 Y20011). KCS is a registered Trademark of Kent

County Council. This framework agreement allows the Council to access a compliant route to market with lower margins than other framework agreements and is an efficient route to market.

The benefit of undertaking a 'call-off' contract from an established framework agreement is that the council reduces contract award time significantly and implement the new contract by 1 January 2022.

4.5 Key Considerations

Delivering a contribution to the council's social value objectives is a key element of this procurement strategy and contract award. The reseller must demonstrate their contribution over the duration of the contract to economic, environmental, and social benefits if they are awarded the contract. The framework agreement provides sufficient flexibility to ensure that the call-off contract will address the following key principles:

- A commitment by the reseller to pay at least the real London Living Wage
- Supportive learning, development, and skills opportunities
- School technology development and infrastructure
- Engagement will local business in the supply chain
- Reduced carbon footprint, being carbon neutral before the Council's 2030 target.

This is a hosting and software licensing agreement, and the service delivery includes cloud-hosted services from Microsoft. Microsoft made a commitment in 2020 to being Carbon 'negative' by 2030 and by 2050 to remove all the carbon the organisation has emitted since it was founded in 1975.

Due diligence was carried out regarding TUPE regulations.

4.6 Evaluation

A call-off contract will be undertaken via the framework agreement. The proposed evaluation criteria will be in line with the mechanism for the call-off contract with (the quality/price ratio being) 40% Quality and 60% Price. The 40% quality includes 20% social value and the remaining 20% is the auditing of our requirements, guidance, and support. The price is based on the number servers, databases and storage, and licensing required for the agreement term, inclusive of reseller fees and volume discounts.

4.7 Business Risks

The call-off contract from the framework agreement is from an approved reseller meaning that all the resellers can access and transact the required licenses on behalf of the Council.

Failure to secure a new agreement will result in a significant corporate risk with the council unable to deliver essential services to businesses, partners, residents, and service users. If a new Microsoft Cloud Hosting and Licensing Agreement is not procured, the Council will relinquish the rights to use all Microsoft Server operating systems 1 January 2022. This would have a severe impact on business continuity and existing service provision with permanent loss of services.

- 4.8 The Employment Relations Act 1999 (Blacklist) Regulations 2010 explicitly prohibit the compilation, use, sale, or supply of blacklists containing details of trade union members and their activities. Following a motion to full Council on 26 March 2013, all tenderers will be required to complete an anti-blacklisting declaration. Where an organisation is unable to declare that they have never blacklisted, they will be required to evidence that they have 'self-cleansed'. The Council will not award a contract to organisations found guilty of blacklisting unless they have demonstrated 'self-cleansing' and taken adequate measures to remedy past actions and prevent re-occurrences.
- 4.9 The following relevant information is required to be specifically approved by the Executive in accordance with rule 2.8 of the Procurement Rules:

Relevant information	Information/section in report
1 Nature of the service	The Microsoft Cloud Hosting and Licensing Agreement allows the Council to legally use Windows Server operating systems and host services in Azure. See paragraph 4.1.
2 Estimated value	The estimated total value is £1.5m over the period. The agreement is proposed to run for a period of 3 year. See paragraph 4.2.
3 Timetable	The new agreement needs to commence 1 January 2022. See Paragraph 4.3
4 Options appraisal	As outlined within the report. See paragraph 4.4.
5 Key Considerations	As outlined within the report. See paragraph 4.5.
6 Evaluation	40% quality: 60% price. See paragraph 4.6.
7 Business Risks	As outlined within the report. See paragraph 4.7.
8 Any other relevant financial, legal, or other considerations.	As outlined within the report. See paragraph 5.

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5. Implications

5.1 Financial implications:

All of the cost relating to this project is ongoing BAU cost with no one-off project cost attached.

The costs of the different elements are shown in table 1 below. Please note that the contract year in this case runs January to December, year 1 being 01/01/2022 to 31/12/2022.

TABLE 1

MS Cloud Hosting and Licensing Service Elements	Year 1 (40%)	Year 2 (70%)	Year 3 (100%)	Funding
Server Licensing	£ 70,000	£ 70,000	£ 70,000	BAU contracts existing budget
Current running cost (Website, DP, IAM)	£ 67,200	£ 117,600	£ 168,000	BAU contracts existing budget
Backup as a Service	£ 50,880	£ 89,040	£ 127,200	CMB agreed transformation funding
Azure Landing Zone	£ 48,000	£ 84,000	£ 120,000	New funding required
Azure Environments (Apps)	£ 65,083	£ 113,896	£ 162,708	New funding required
Total annual cost	£ 301,163	£ 474,536	£ 647,908	
Total cost of contract			£ 1,423,607	

The first two elements are already budgeted for in the baseline IDS budget at £258k per annum. This figure will increase with inflation in each subsequent year.

The backup service has a CMB agreed overall budget of £324k for the next three years, after which time the pressure will need to be recognised and incorporated in the baseline IDS budget.

Both Azure elements are new and will require additional funding. The breakdown of the financial impact over the next four financial years is shown in table 2.

TABLE 2

	2021/22	2022/23	2023/24	2024/25
Total COST of contract (1.423m)	£ 75,291	£ 344,506	£ 517,879	£ 485,931
Funding:				
Available baseline BAU budget	£ 64,500	£ 258,000	£ 270,900	£ 531,424
Available transformation funding agreed	£ 10,791	£ 86,506	£ -	£ -
Additional growth to be incorporated into MTFs	£ -	£ -	£ 246,979	£ -

All the expenditure relating to this service can be contained within existing funding in the current and following financial year.

From 2023/24 £247k of budget pressure will need to be added to the IDS baseline budget to fund the contract costs. The 2024/25 figure seems slightly smaller owing to the fact that the contract will end in December and therefore only cover nine months of the financial year, but it is reasonable to assume that the contract will be extended. If that is the case, the 2023/24 amount of £247k already incorporated in the base budget will need to be uplifted by the relevant inflation amount.

5.2 Legal Implications:

- a) This Report recommends approval of the procurement strategy and contract award for a new Microsoft Cloud Hosting and Licensing Agreement to the value of approximately £1.5m for the procurement of Microsoft-managed datacentre services and licensing of the Windows server estate to Phoenix Software Ltd for a period of three years commencing 1 January 2022 via a direct-award call-off contract from the KCS Framework Agreement (Software Products & Associated Services 2 Y20011).
- b) Section 111 of the Local Government Act 1972 gives the council power to award this contract as it facilitates the discharge of their said statutory duties and delivery of statutory and other services.
- c) The total contract value over the maximum period of three years is c£1.5m which is above the threshold for services under the Public Contracts Regulations 2015 [as incorporated into UK law and subject to The Public Procurement (Amendment etc.) (EU Exit) Regulations 2020].
- d) The proposed procurement route of a direct award to Phoenix Software Ltd from the KCS Framework Y20011 is a compliant route to market.
- e) Pursuant to Procurement Rule 18.1.1 the Corporate Director may award this contract as the total contract value is revenue money and is below the £2m limit of delegated authority for Corporate Directors. The process outlined in the body of this Report is compliant with the Procurement Rules.

4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

The main environmental impact of this contract is the electricity used by the cloud servers hosting the software. However, Microsoft Cloud services are up to 93 percent more energy efficient and up to 98 percent more carbon efficient than our legacy data centres. Compared to virtualised, high-end data centres, the Microsoft Cloud delivers big gains in energy efficiency and reductions in carbon emissions. Microsoft also made a commitment in 2020 to being Carbon 'negative' by 2030 and by 2050 to remove all the carbon the organisation has emitted since it was founded in 1975.

Hosting our services in Microsoft-managed datacentres in Azure also enables decommissioning our legacy datacentres that reduce environmental impacts. It allows council staff to access emails and files from any location and on mobile devices, and alongside Microsoft Teams, reduces the need for staff to travel, in turn reducing travel-related environmental impacts such

as vehicular emissions and contributing to congestion, while programmes such as Microsoft Forms reduce the need for paper forms, reducing material usage.

4.4 Resident Impact Assessment:

The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

A Resident Impact Assessment was completed in August 2021 and the summary is included below.

No actions were identified from the Resident Impact Assessment; the assessment found no impact to resident profile, equalities or to safeguarding and human rights.

The complete Resident Impact Assessment is appended.

6. Reason for the decision

- 6.1 The Council's current three-year Microsoft Cloud Hosting and Licensing Agreement expires on the 31 December 2021. To enable the council to continue using Microsoft hosting services and server licensing, a new Microsoft Cloud Hosting and Licensing Agreement must be in place effective from 1 January 2022.

7. Record of the decision:

- 7.1 I have today decided to take the decision set out in section 2 of this report for the reasons set out above.

Signed by:

Corporate Director Resources

Date: 18 October 2021

Appendices

- Resident Impact Assessment

Background papers:

- None.

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