

NO: R086

COUNCIL DATE: April 26, 2021

REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **April 22, 2021**

FROM: **General Manager, Corporate Services**

FILE: **1355-01**

SUBJECT: **Microsoft Volume Licensing and Maintenance Contracts**

RECOMMENDATION

The Corporate Services Department recommends that Council:

1. Approve the renewal of volume licensing, services, maintenance, and support contracts for a three-year term with the Microsoft Corporation, at an annual (averaged) cost of \$3,530,000.00, including GST & PST;
2. Set the total three-year expenditure authorization limit at \$11,500,000.00, including taxes and contingency; and
3. Authorize the General Manager, Corporate Services Department to execute the contract with the Microsoft Corporation for a three-year term.

INTENT

This report seeks Council authority for a contract renewal with the Microsoft Corporation (“Microsoft”) for the provision of software licensing, maintenance, and support for the City’s computers, servers, and cloud-based services for a term of three years.

BACKGROUND

A contract with Microsoft was originally created in 2008 and was renewed in 2012 and 2015. Subsequently, in June 2018 Council approved Corporate Report No. R125; 2018, attached as Appendix “I”, resulting in a renewal contract for three years, expiring June 30, 2021.

As referenced in Appendix “I” (see Microsoft Office Alternatives) Microsoft’s platforms and services are uniquely positioned to provide cloud-hosted-in-Canada solutions that tightly integrate with the City’s line of business applications and business workflows.

DISCUSSION

Since the 2018 contract renewal, the City expanded its use of Microsoft software products and services to innovatively deliver on strategic initiatives, increase the City’s resilience to business disruption, and accommodate growth in the workforce and digital process automation. These include:

- The adoption of Office 365 in late 2018, which empowered workers with anywhere, anytime, and straightforward access to modern collaboration, decision making data, and communication capabilities;
- Building on the success of adopting Microsoft’s Power Platform, used to create Surrey Excels and other D3M initiatives, by rapidly creating more dashboards across departments to achieve the City’s digital workspace strategy;
- The adoption of Microsoft Teams in late 2018 positioned the City very well to respond, when COVID-19 compelled a top-to-bottom redesign of service delivery, which included hosting City Council meetings online;
- Moving email and other suitable server workloads and data, or backups of data, into the cloud has facilitated rapid, secure, and cost-effective growth compared to on-premises solutions; and
- A larger adoption of Microsoft’s database platform in lieu of the incumbent database platform will lead to lower operating costs with excellent integration opportunities.

As a result of signing multi-year volume license and maintenance contracts with Microsoft since 2008, the City has realized benefits that include:

- Fixed and published pricing (predictable) during each term;
- Discounted corporate and education-qualifying pricing;
- Access to a discounted Microsoft Office Home Use Program for all workers;
- Online and classroom-based training programs and resources; and
- Professional planning services.

From the onset, Microsoft’s delivery of services under its contract with the City has been satisfactory.

Pricing

Microsoft’s price agreement is based on an organization’s license quantity requirements:

Pricing Levels	Organization License Requirements
Level A:	Less than 2,400
Level B:	Less than 6,000
Level C:	Less than 15,000
Level D:	15,000 or more

The City’s 2018 contract with Microsoft, which terminates on June 30, 2021, is based on a Broader Public Sector Agreement (“BPSA”) that was negotiated between the BC Government and Microsoft and extended to other public sector organizations including local governments within the Province. This agreement provides for the maximum available discount at Microsoft’s Level D

pricing. Otherwise, based on the number of licenses required by the City, it would fall within the Level B pricing scheme resulting in annual license costs that are 12% higher than what the City has been paying under the BC Government’s BPSA.

The City’s 2018 contract is valued at an averaged \$1,643,000.00 per year. Staff have negotiated a renewal contract, for three years with Level D pricing, valued at an averaged \$3,530,000.00 per year, of which \$2,408,000.00 is for City of Surrey and \$1,121,680.00 is for Surrey Police Service.

The cost increase for the City of Surrey’s portion of the contract is attributed to:

- An average price increase by Microsoft of 13%;
- Growth of existing and new business solutions;
- Consolidation of an existing Microsoft support service, worth \$112,000.00 per year; and
- Increased investment with Microsoft for database and related platforms and services, that would otherwise be spent with other vendors, worth \$388,000.00 per year

The Surrey Police Service’s portion of the contract includes costs for Microsoft software that are embedded in the services contract with the RCMP.

Microsoft Software Platform/Solution	2018 Average Annual Cost	2021 Average Annual Cost	Previous Funding Source	Comment
(A) Windows, Office 365, Teams, Employee Portal and Security	\$1,443,413	\$1,680,000	No change	Growth and new business needs
(B) Windows Server, Database	\$199,587	\$226,668	No change	On-premises growth
(C) Cloud Storage & Workload	\$0	\$223,776	Not applicable	Cloud-hosting growth
(D) D3M (Power Platform) and related services	\$0	\$165,526	D3M project	New sustainment and growth
(E) Dedicated support, planning, and training services	\$0	\$112,000	Separate OpEx budget	Consolidation of an existing contract
City of Surrey portion total	\$1,643,000	\$2,407,970		Increase includes \$388,000 that would otherwise be spent with other vendors
(F) Surrey Police Service equivalent of A thru E	Embedded in RCMP services contract	\$1,121,680	RCMP services contract	
Total Averaged Annual Cost including GST & PST	\$1,643,000	\$3,529,650		

As the contract amount is tied to the quantity of licenses and services the City initially purchases or subscribes, the contract amount will fluctuate from year to year based on growth and changing business needs. A projected average growth of 8% has been factored into the average annual cost.

The proposed contract supports a strategic shift from traditional, on-premises platforms to resilient, flexible, and lower cost cloud-based platforms and services. This has empowered the

City to work, collaborate, and share anytime, anywhere, on any device, and has facilitated a more rapid implementation of business and IT partnered solutions.

Based on the above, it is recommended that the City renew its volume licensing, services, maintenance, and support contracts, for a three-year term with the Microsoft Corporation, at an annual (average) cost of \$3,530,000.00, including GST & PST and excluding contingency.

Legal Services Review

The Legal Services Division has reviewed this report and have no concerns.

FUNDING

Funding for City of Surrey's portion for this contract renewal will be included in the annual Corporate Services IT Operating Budget in the 2022-2026 Financial Plan; and funding for Surrey Police Services' portion is included in the Policing Transition Project budget and Surrey Police Service operating budget.

CONCLUSION

Over the years, the City has expanded its use of Microsoft software products and services to innovatively deliver on strategic initiatives, increase the City's resilience to business disruption, and accommodate growth in the workforce and digital process automation. Microsoft's platforms and services are uniquely positioned to provide cloud-hosted-in-Canada solutions that tightly integrate with the City's line of business applications and business workflows. The Corporate Services Department is seeking Council authority for a contract renewal with Microsoft for the provision of software licensing, maintenance, and support for the City's computers, servers, and cloud-based services for a term of three years.

Rob Costanzo
General Manager, Corporate Services

SK/RAC/jhs

Appendix "I": Corporate Report No. R125: 2018

CORPORATE REPORT

NO: R125

COUNCIL DATE: June 11, 2018

REGULAR COUNCIL

TO: Mayor & Council

DATE: June 7, 2018

FROM: General Manager, Corporate Services

FILE: 1355-01

SUBJECT: Microsoft Volume Licensing and Maintenance Agreements

RECOMMENDATION

The Corporate Services Department recommends that Council:

1. Approve the renewal of volume licensing and maintenance contracts for a three year term with the Microsoft Corporation, at an annual (average) cost of \$1,643,000, including GST & PST;
2. Set the total three year expenditure authorization limit at \$5,421,000, including taxes and contingency; and
3. Authorize the General Manager, Corporate Services Department to execute the contract renewal with the Microsoft Corporation for a three year term.

INTENT

This report seeks Council authority for a contract renewal with the Microsoft Corporation ("Microsoft") to provision software maintenance and licensing for the City's computers and servers, for a term of three years.

BACKGROUND

In 2008, Council approved the recommendation contained in Corporate Report No. R087; 2008, attached as Appendix "I", which authorized staff to proceed with a contract for the purchase of operating system, infrastructure, and productivity software from Microsoft for all of the City's computers. The contract was for a four-year term, expiring June 30, 2012.

In 2012, Council approved Corporate Report No. R179; 2012, attached as Appendix "II", resulting in a renewal of the Microsoft contract for three years and expiring June 30 2015.

Subsequently, in May 2015 Council approved Corporate Report No. R088; 2015, attached as Appendix "III", resulting in a renewal contact for three years, expiring June 30 2018.

DISCUSSION

Since the 2015 contract renewal, the City expanded its use of Microsoft software products to accommodate workforce growth and deliver on strategic initiatives including:

- Advancing security features for computer and mobile devices, and threat analytics reporting;
- Enabling a secure anywhere, anytime, any device Employee Portal that provides access to digital paystubs, expense claims, CityNet intranet content, and self-service technical support, including a new self-service account unlock and password reset feature;
- A reinvented CityNet intranet; and
- Data driven decision making (business intelligence) for the Parks Recreation & Culture Department.

As a result of signing multi-year volume license and maintenance contracts with Microsoft since 2008, the City has realized benefits including the following:

- Fixed and published pricing (predictable) during each term;
- Discounted corporate and education-qualifying pricing;
- Access to the \$11 Microsoft Office Home Use Program for all workers;
- Included access to online and classroom-based training programs and resources; and
- Included access to professional planning services.

Pricing

Microsoft's price agreement is based on an organization's license quantity requirements:

Pricing Levels	Organization License Requirements
Level A:	Less than 2,400
Level B:	Less than 6,000
Level C:	Less than 15,000
Level D:	15,000 or more

The City's existing contract with Microsoft is based on a Broader Public Sector Agreement ("BPSA") that was negotiated between the BC Government and Microsoft and extended to other public sector organizations including local governments within the Province. This agreement provides for the maximum available discount at Microsoft's Level D pricing. Otherwise, based on the number of licenses required by the City, it would fall within the Level B pricing scheme resulting in annual license costs that are 12% higher than what the City has been paying under the BC Government's BPSA.

The City's existing contract with Microsoft, which terminates on June 30, 2018, is valued at approximately \$1,008,000 per year. Staff have negotiated a renewal of its existing contract with Microsoft for three years with Level D pricing for the full duration of the three-year period. The City's annual average cost under a new contract with Microsoft will be approximately \$1,643,000. As the contract amount is tied to the number of licenses the City initially purchases, the contract amount will fluctuate from year to year based on the City's personnel and infrastructure growth. A projected average growth of 15% has been factored into the average annual cost.

The increase in cost for the proposed contract renewal compared to our existing contract is based on the following:

- The use of the Microsoft Office applications has increased by 15% across the organization since 2015;
- The Office applications' \$854,187 per year licensing cost alone represents approximately 52% of the total estimated annual contract cost;
- The City's server platform has grown over the last 3 years, resulting in costs that have nearly doubled compared to the previous three-year period; and
- New components have emerged such as PowerBI, and others required for the Employee Portal.

The table below provides a breakdown of the City's annual projected costs under a new agreement with Microsoft:

Microsoft Software Platform/Solution	Estimated Annual Cost, including GST	Percent of Estimated Annual Cost
Office 365:	\$854,187	52%
Employee Portal and Security:	\$408,533	25%
Windows 10:	\$147,840	9%
Windows Server:	\$131,413	8%
Database:	\$49,280	3%
Email and CityNet:	\$32,853	2%
Development Tools:	\$18,894	1%
Total Estimated Annual Cost:	\$1,643,000	

The proposed agreement includes a significant shift from the traditional PC-based Office suite to Office 365, which is an ever-evolving ecosystem of cloud-based storage and integrated productivity services. Implementing Office 365 will enable Surrey's workforce to work, collaborate, and share anytime, anywhere, on any device, and represents a strategic investment in Microsoft's cloud-based platforms and services.

Microsoft Office Alternatives

At this time, Microsoft Office is uniquely positioned to integrate with Surrey's line of business applications such as AMANDA (Planning & Development Department), and Microsoft-centric applications such as Exchange (email), Skype, CityNet (SharePoint), and PowerBI.

Globally, Microsoft Office dominates the \$15 billion market for business productivity tools due to its longstanding reliability and integration abilities. At this time, a cloud-based and Canadian hosted alternative to Microsoft Office does not exist, and open standard, non-cloud alternatives such as Open Office are not nearly as integrated or capable as Microsoft Office.

The closest competition to Microsoft on its business productivity tools is Google. However, Google's G Suite business productivity tools are cloud-based only and a desktop software version does not exist. In addition, G Suite lacks the integration capabilities the City requires, as described above. In comparison to Microsoft Office, G Suite also lacks customizable workflow, smart content and theme functionality.

Notwithstanding the above, Google's future potential for its G Suite may be higher than Microsoft Office. G Suite presently dominates universities and start-ups as it is much lower in cost compared to Microsoft Office. It is anticipated that as this demographic ages and begins to dominate the job market, it may create a shift in product and service demand towards Google's productivity tools, thereby increasing its development resulting in higher levels of integration. Staff is closely monitoring this market to determine its effectiveness and potential for future consideration.

Based on the above, it is recommended that the City renew its volume licensing and maintenance contracts, for a three year term with the Microsoft Corporation, at an annual (average) cost of \$1,643,000, including GST & PST.

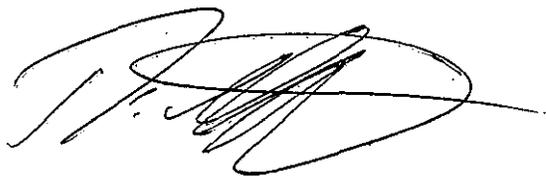
FUNDING

Funding for this contract extension is available in the annual Corporate Services IT Operating Budget.

CONCLUSION

The Corporate Services Department recommends that Council:

- Approve the renewal of volume licensing and maintenance contracts, for a three year term with the Microsoft Corporation, at an annual (average) cost of \$1,643,000, including GST & PST;
- Set the total three year expenditure authorization limit at \$5,421,000, including taxes and contingency; and
- Authorize the General Manager, Corporate Services Department to execute a contract renewal with the Microsoft Corporation for a three year term.



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Appendices available upon request

Appendix "I" Corporate Report No. R087: 2008

Appendix "II" Corporate Report No. R179: 2012

Appendix "III" Corporate Report No. R088: 2015