

NO: R202

COUNCIL DATE: November 20, 2023

REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **November 16, 2023**

FROM: **Acting General Manager, Corporate Services**

FILE: **1355-01**

SUBJECT: **Microsoft Volume License and Maintenance Contract Extension**

RECOMMENDATION

The Corporate Services Department recommends that Council:

1. Approve the revision and extension of volume licensing, maintenance, and support contracts for a four-year seven-month term with Microsoft Corporation (“Microsoft”), at an annual (averaged) cost of \$3,161,273 including taxes;
2. Set the total expenditure authorization limit for the term at \$15,938,000, calculated as \$3,161,273 times 4 years, 7 months plus 10% contingency; and
3. Authorize the Acting General Manager, Corporate Services to execute the contract with Microsoft for the term.

INTENT

This report seeks Council authority for a contract extension with Microsoft to provision software maintenance and licensing for the City’s computers, servers, and cloud services, for a term of four-years and seven months, effective December 1, 2023, until June 30, 2028. This extension benefits the City by establishing fixed pricing for a longer term than the current contract’s three-year term, ending June 30, 2024. See Appendix “I”: Corporate Report No. Ro86: 2021.

BACKGROUND

The City’s existing contract with Microsoft, first established in 2008, is based on a Broader Public Sector Agreement negotiated between the BC Government and Microsoft, which is extended to other public sector organisations including local municipalities.

DISCUSSION

Signing a multi-year extension allows the city to realize benefits including fixed pricing for the term, cost stability, discounts to additional products and features being added, and support from Microsoft for planning and training. This agreement provides for the maximum available discount pricing. Based on the City’s experience, renewing the contract at the end of its term is likely to be more costly at that time compared to extending it now as recommended by staff.

Staff have negotiated an extension to the contract that includes both additional features and discounts worth \$596,000 over the extended term.

Microsoft Office Alternatives

Currently, there are no alternative solutions to Microsoft Office that uniquely integrate with Surrey's line of business applications such as AMANDA (Planning & Development Department), and Microsoft-centric applications such as Exchange (email), Teams, CityNet (SharePoint), and Power BI.

Pricing

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

Software (Applications, Platforms, Solutions)	Average Annual Cost, including taxes	Percent of Annual Cost
Microsoft 365 (Windows, Office, etc.), Employee Portal and Cyber-Security tools, and Teams Meeting Rooms	\$2,623,857	83%
Windows Server, Database, Data Driven Decision (Power BI), Email, Development Tools	\$537,416	17%
Total	\$3,161,273	

Comparing to the average annual spend of \$2,072,194 in the current agreement term, the \$1,089,079/year average cost increase for the extended term is attributed to:

- Expiration on June 30, 2024, of discounts previously negotiated by the City, worth \$502,848 are no longer offered to local municipalities;
- An average Microsoft product price increase of 9%, worth \$186,497;
- In several cases, we will switch to Microsoft's products (e.g., Microsoft Defender, MS SQL Server, etc.) which raises the annual Microsoft expense in the amount of \$399,734. Converting to Microsoft products creates operational efficiencies by reducing staff time to deliver services, therefore achieving long term cost savings.

FUNDING

Funding for the contract is available in the annual Information Technology Division budget.

LEGAL SERVICES REVIEW

This report has been reviewed by Legal Services.

CONCLUSION

The proposed contract supports a strategic shift from traditional, on-premises platforms to resilient, flexible, and lower cost cloud-based platforms and services that has empowered the City to work, collaborate, and share anytime, anywhere, on any device. It is recommended that Council approve the revision and extension of volume licensing, maintenance, and support

contracts for a four-year seven-month term with Microsoft in the amount of \$15,938,000 including taxes and contingency, and authorize the Acting General Manager, Corporate Services to execute the contract with Microsoft for the term.

Joey Brar
Acting General Manager, Corporate Services

Appendix "I": Corporate Report No. Ro86: 2021



CORPORATE REPORT

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

***Appendices available upon request**

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