

REPORT TO : THE CABINET MEMBER FOR RESOURCES

APPENDIX 1

DATE : 12 JUNE 2009

FINANCIAL APPRAISAL

MICROSOFT ENTERPRISE AGREEMENT - OPTIONS APPRAISAL

This Financial Appraisal considers the financial and non-financial benefits of changing the basis upon which the City Council purchases and finances software licences it needs to hold in support of the software systems used by the various departments of the Council.

OPTION 1 - DO NOTHING

SELECT AGREEMENT

At present City Council departments purchase their software licences from Microsoft on an annual basis under what is known as a Microsoft Select Agreement. The funding for this is held in the department's budget and each service manager determines their requirements based upon their network of PC's (desktop and laptops), in consultation with ICTS. Under the terms of the Select Agreement there is no forward commitment to incur expenditure and software licensing needs can be varied from year to year based upon changes in business needs and funding availability.

The financial terms of the Select Agreement have been negotiated at national level on behalf of Local and Regional Government and therefore reflects competitive unit rates. Licences purchased under this contract are owned by the City Council. It is a legal requirement to licence all software used on City Council equipment. Compliance with the relevant copyright laws is audited annually under the Federation Against Software Theft (FAST) procedures. However, this method of software purchasing does not allow upgrades to existing software releases, unless an appropriate upgrade fee is paid by the user department.

Select Agreement - Current Estimated Costs

Software System	2009	2009/10		2010/11		2011/12		2012/13		2013/14	
	Unit cost	Units	Cost	Units	Cost	Units	Cost	Units	Cost	Units	Cost
Windows 7 Business	£87.00					1100	95,700	1100	95,700	1100	95,700
Office Professional Plus	£222.00	800	177,600	800	177,600	800	177,600	800	177,600	150	33,300
Windows Server CAL	£13.00					4100	53,300				
Exchange Server CAL	£30.96	4500	139,300							4500	139,300
Configuration Manager CML	£18.00	2100	37,800			4100	73,800				
Outlook 2007	£38.52	3000	115,600								
			<u>470,300</u>		<u>177,600</u>		<u>400,400</u>		<u>273,300</u>		<u>268,300</u>
Inflation Assumed	5%				8,900		41,000		43,100		57,800
			<u>470,300</u>		<u>186,500</u>		<u>441,400</u>		<u>316,400</u>		<u>326,100</u>
											<u><u>1,740,700</u></u>

Assumptions Applied :

1. There is a requirement to replace 800 Office Professional Pro Licences each year for the next four years, this will reduce to 150 licences in year 5.
2. The City Council need to upgrade to a new Windows Operating System "Windows 7 Business Edition" from 2011/12, this applies to all 4,100 devices, it is proposed to phase this programme of upgrades over a four year period at a rate of 1,100 per annum in the first three years.
3. The Software Distribution system (SCCM) will need to be upgraded within 3 years in conjunction with the implementation of "Windows 7" in 2011/12 at a cost of £73,800.
4. The City Council will need to transfer to Windows Server 2008, this will require the purchase of Windows Server CAL in 2011/12.
5. The existing project for PC, Server and E-mail enhancements to hardware and software requires installation of Exchange CALS, Outlook Licences and SCCM CALS.
6. Finally all existing Exchange Server CAL Licences will need to be replaced again in 2013/14.
7. The current PCC network of devices (desktops, laptops and handheld) totalled 4,100 units when the Microsoft quote was obtained. Current numbers are now lower.
8. It is anticipated that future annual licence fees will increase at a rate of 5% per annum.
9. It should be noted that each service department will not necessarily have made specific budget provision to cover the above estimated software licence costs.

OPTION 2 - SOFTWARE LEASE AGREEMENT

ENTERPRISE AGREEMENT

Under this scheme, the City Council is required to pay a standard rate per device that will cover ALL the Microsoft Software Licences currently paid for on an individual basis. The software licences will no longer be owned by the City Council, therefore after this initial period of 5 years, if the Agreement was not renewed the City Council would need to pay a termination charge to "buy-back" the licences.

The charges applied per device after 5 years cannot be agreed in advance of the renewal date, therefore the City Council is exposed to the risk that if these charges are increased by a significant amount, the cost of termination is currently estimated to total £714,000. Therefore, the City Council will effectively be "locked into" an agreement to fund their Software Licences via the terms of this agreement.

Enterprise Agreement - Current Estimated Costs (as at June 2009)

Based on 4100 devices

	Costs	2009/10		2010/11		2011/12		2012/13		2013/14	
		Units	Cost	Units	Cost	Units	Cost	Units	Cost	Units	Cost
Cost - years 1 to 3	£56.00	4100	229,600	4100	229,600	4100	229,600				
Cost per device Year 4 and 5	£75.50							4100	309,550	4100	309,550
			229,600		229,600		229,600		309,550		309,550
											1,307,900

Summary of Costs

	2009/10 £	2010/11 £	2011/12 £	2012/13 £	2013/14 £	Total £
Option 1 : Select Agreement	470,300	186,500	441,400	316,400	326,100	1,740,700
Option 2 : Enterprise Agreement	229,600	229,600	229,600	309,550	309,550	1,307,900
Cost/(Savings) :	(240,700)	43,100	(211,800)	(6,850)	(16,550)	(432,800)

Evaluation of the Options :

1. The Enterprise Agreement method of funding Microsoft Licensing requirements provides certainty over future costs as the rate per device offered is significantly lower than the charges currently applied under the existing Select Agreement terms of business. The Enterprise Agreement is estimated to realise a cost saving of £432,800 over the period 2009/10 - 2013/14 compared to the existing arrangements.
2. In 2010/11 where there is a lower requirement for Software renewal (ie there are no upgrades programmed) annual costs will be higher, but this is more than compensated in later periods when further upgrades will be required but at no additional cost.
3. Other financial benefits of Enterprise Agreement (that are not built into Select Agreement costs above) include :

PCC will have the right to use/upgrade software without having to buy new additional licences

- Right to use Sharepoint CALS - under the current Select Agreement this would cost £176,000 (@ £43 per device), Sharepoint supports collaborative working.
- Right to install next release of Microsoft Office on all capable devices - under current Select Agreement this would cost £906,000 to buy licences (@ £220 per device)

Other Information Relevant to this Decision

1. A sum of £150,000 has been set aside in the IT Reserve to fund the Software Licence fees associated with the PC, Server and E-mail upgrades project.
2. Prices applicable to both forms of Licence Agreement will increase significantly wef 16 June 2009.

Method of Funding Proposal

It is therefore proposed to enter into a new software licence agreement called an "Enterprise Agreement" at an estimated cost of £1,307,900 funded by a draw down of £150,000 from the IT Reserve in 2009/10, with the balance of funding of £1,157,900 being found by a top-slice of existing department's budgets.

Financial Appraisal Prepared by:
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9 June 2009

IT - MICROSOFT SOFTWARE PURCHASING AGREEMENT

There is a requirement to show the incidence of the proposed new licencing funding agreement by departmental revenue budget.

Summarised below is a table that identifies the number of devices used by service/directorate and associated costs.

PROPOSED COSTS ACROSS SERVICES

		Unit Cost	2009/10 £19.41	2010/11 £56.00	2011/12 £56.00	2012/13 £75.50	2013/14 £75.50
CX	DAVID WILLIAMS	10	£194	£560	£560	£755	£755
		10	£194	£560	£560	£755	£755
CULTURE	ROGER CHING	215	£4,174	£12,040	£12,040	£16,233	£16,233
FINANCE	ROGER CHING	258	£5,009	£14,448	£14,448	£19,479	£19,479
HOUSING MANAGEMENT	ROGER CHING	583	£11,319	£32,648	£32,648	£44,017	£44,017
AUDIT & PERFORMANCE IMPROVEMENT	ROGER CHING	43	£835	£2,408	£2,408	£3,247	£3,247
REVENUES AND BENEFITS	ROGER CHING	147	£2,854	£8,232	£8,232	£11,099	£11,099
		1246	£24,191	£69,776	£69,776	£94,073	£94,073
COMMUNITY HOUSING	KATHY WADSWORTH	91	£1,767	£5,096	£5,096	£6,871	£6,871
TRANSPORT & STREET MANAGEMENT	KATHY WADSWORTH	167	£3,242	£9,352	£9,352	£12,609	£12,609
ENVIRONMENT & PUBLIC PROTECTION	KATHY WADSWORTH	105	£2,039	£5,880	£5,880	£7,928	£7,928
PLANNING	KATHY WADSWORTH	71	£1,378	£3,976	£3,976	£5,361	£5,361
REGENERATION & BUSINESS	KATHY WADSWORTH	119	£2,310	£6,664	£6,664	£8,985	£8,985
ADULT LEARNING	KATHY WADSWORTH	208	£4,038	£11,648	£11,648	£15,704	£15,704
		761	£14,775	£42,616	£42,616	£57,456	£57,456
ADULT CARE	MARGRAET GEARY	730	£14,173	£40,880	£40,880	£55,115	£55,115
CUSTOMER SERVICES	MARGRAET GEARY	103	£2,000	£5,768	£5,768	£7,777	£7,777
HEALTH DEVELOPMENT & IMPROVEMENT	MARGRAET GEARY	53	£1,029	£2,968	£2,968	£4,002	£4,002
HUMAN RESOURCES	MARGRAET GEARY	170	£3,300	£9,520	£9,520	£12,835	£12,835
		1056	£20,502	£59,136	£59,136	£79,728	£79,728
DEMOCRATIC & COMMUNITY ENGAGEMENT	MICHAEL LAWTHER	23	£447	£1,288	£1,288	£1,737	£1,737
COMMUNITY SAFETY	MICHAEL LAWTHER	116	£2,252	£6,496	£6,496	£8,758	£8,758
ICT SERVICES	MICHAEL LAWTHER	150	£2,912	£8,400	£8,400	£11,325	£11,325
LEGAL LICENSING & REGISTRARS	MICHAEL LAWTHER	119	£2,310	£6,664	£6,664	£8,985	£8,985
ASSET MANAGEMENT	MICHAEL LAWTHER	134	£2,602	£7,504	£7,504	£10,117	£10,117
		542	£10,523	£30,352	£30,352	£40,921	£40,921
SAFEGUARDING	IAN SANDBROOK	311	£6,038	£17,416	£17,416	£23,481	£23,481
		311	£6,038	£17,416	£17,416	£23,481	£23,481
		3926	£76,222	£219,856	£219,856	£296,413	£296,413
DIFFERENCE BETWEEN TOTAL AND QUOTE		174	£3,378	£9,744	£9,744	£13,137	£13,137
		4100	£79,600	£229,600	£229,600	£309,550	£309,550

Funding Contribution from IT Reserve : £150,000

£1,307,900

Notes:

- The quote provided by Microsoft was based on 4,100 devices - the number of devices in use has fallen since the quote was provided. Therefore the final cost of the licence fees is subject to change, based upon changes in the number of devices in use on completion.
- Prices charged will reflect the number of devices in use on completion of the Agreement, not the estimated number in use at the time of the quote.
- The first year funding contribution by department is a total of £79,600 after taking into account the £150,000 to be funded from the IT Reserve. This equates to a net unit cost of £19.41 per device falling upon service departments revenue budgets in 2009/10.
- It is proposed to adjust service department cash limits in order to transfer the funding resources to ICTS so that the Software Licencing costs are then controlled and managed centrally.