TORONTO

REPORT FOR ACTION

Leveraging Provincial Agreement to acquire Microsoft 365 Cloud Licenses, Implementation and Support Services

Date: March 15, 2021
To: General Government and Licensing Committee
From: Chief Technology Officer, Technology Services Division, and Chief Procurement Officer, Purchasing and Materials Management Division
Wards: All

SUMMARY

The pandemic has led to an increase in the demand for tools that enable remote work, and real-time collaboration. As more City services are delivered digitally and staff work remotely, there is a greater requirement for enhanced equitable and inclusive collaboration tools to improve operational efficiency within the City, with Agencies, Boards and Commissions, and other external organizations. Microsoft 365 is a leading cloud-based collaboration platform that will enable the continuous remote work and is a critical technology that will be foundational for the delivery of the ModernTO Workplace Modernization Program benefits and outcomes. The ModernTO Program will accelerate the City's transition to a modernized employee experience and improve the overall efficiency of the office footprint.

The City is currently leveraging the Province of Ontario's Enterprise Agreement ("EA") with Microsoft for cloud-based software subscriptions in the form of an Enterprise Enrollment with Microsoft.

In December 2016, City Council granted Staff the authority to utilize the Province of Ontario's Enterprise Agreement with Microsoft for three years, for the supply of cloud products and to conduct a Microsoft 365 Pilot Assessment. In December 2019, based on the pilot outcomes, the Technology Services Division (at the time known as Information & Technology Division) recommended to City Council a go-forward enterprise Microsoft licensing strategy for the City.

The purpose of this report is to seek authority to complete the enterprise rollout, subject to yearly budget approvals, by:

(1) amending the existing Enterprise Enrollment between the City and Microsoft, which is expiring this year, for a term of five years to provide for Microsoft 365 licensing

subscriptions for City users. The pilot for 500 users was valued at $1.5 million net of Harmonized Sales Tax ($1.6 million net of Harmonized Sales Tax recoveries). It will now extend to up to 37,000 users, starting with an initial 10,000 users. Overall value of the contract will increase by up to $86.5 million net of Harmonized Sales Tax ($88.0 million net of Harmonized Sales Tax recoveries) bringing the maximum value of the contract to $88.0 million net of Harmonized Sales Tax ($89.6 million net of Harmonized Sales Tax recoveries);

(2) executing a Professional Services agreement with Microsoft, to implement the Microsoft 365 platform, to a maximum contractual value of $4.6 million net of Harmonized Sales Tax ($4.7 million net of Harmonized Sales Tax recoveries);

(3) executing an enrollment in a Microsoft Unified Support Services agreement which includes support and maintenance for existing and new licensed services. The City currently has authority under GL16.5 (Renewal of Proprietary Technology Maintenance Contracts Supporting the City Services from 2021-2025) for $11.4 million net of Harmonized Sales Tax ($11.6 million net of Harmonized Sales Tax recoveries). Through this report, City is requesting an additional $1.6 million net of Harmonized Sales Tax ($1.7 million net of Harmonized Sales Tax recoveries) bringing the maximum value of the contract to $13.0 million net of Harmonized Sales Tax ($13.3 million net of Harmonized Sales Tax recoveries) over five years.

All of the above, will be pursuant to the terms of the agreements between the Province of Ontario and Microsoft.

Other governments[1] in Canada that have implemented Microsoft 365 in their operations include Government of Canada (300,000 users), Province of Ontario (70,000 users), Government of Quebec (56,000 users), City of Ottawa (20,000 users) and City of Brampton (5600 users).

City Council approval is required in accordance with Municipal Code Chapter 195, Purchasing, where the current request exceeds the Chief Procurement Officer's authority of the cumulative five year commitment limit for each vendor under Article 7, Section 195-7.3(D) of the Purchasing By-law or exceeds the threshold of $500,000 net of Harmonized Sales Tax allowed under staff authority as per the Toronto Municipal Code, Chapter 71, Financial Control, Section 71-11(A).

RECOMMENDATIONS

The Chief Technology Officer and the Chief Procurement Officer recommend that:

1. City Council grant authority to the Chief Technology Officer to negotiate and execute non-competitive contracts with Microsoft Canada Inc. leveraging the provincial enterprise agreement, on the terms and conditions satisfactory to the Chief Technology Officer, and in a form satisfactory to the City Solicitor, which include:

[1] Source: Microsoft Canada Inc.

a. an amending agreement to procure Microsoft 365 subscription licenses for a 5 year term effective June 1, 2021 to May 31, 2026 and increase the value of the Enterprise Enrollment contract by an estimated sum of up to $86,477,646 net of Harmonized Sales Tax ($87,999,653 net of Harmonized Sales Tax Recoveries) to $87,971,498 net of Harmonized Sales Tax ($89,519,796 net of Harmonized Sales Tax Recoveries); and

b. an agreement to secure professional services to implement the Microsoft 365 platform at an estimated sum of up to $4,536,924 net of Harmonized Sales Tax ($4,616,774 net of Harmonized Sales Tax Recoveries); and

c. an agreement to secure additional support services for the ongoing maintenance and operational support of the Microsoft 365 platform and foundational Microsoft technologies for a term effective May 1, 2021 to May 31, 2026 and increase the value of the Unified Support Contract by an estimated sum of up to $1,705,368 net of Harmonized Sales Tax ($1,735,382 net of Harmonized Sales Tax Recoveries) to $13,071,368 net of Harmonized Sales Tax ($13,301,424 net of Harmonized Sales Tax Recoveries).

FINANCIAL IMPACT

The total potential value for which approval is sought, to fully enable 37,000 users, is up to $92.7 million net of Harmonized Sales Tax ($94.4 million net of Harmonized Sales Tax recoveries) over five (5) years. The City will initially enable 10,000 users and the 2021 financial implication is $8.1 million net of Harmonized Sales Tax ($8.2 million net of Harmonized Sales Tax recoveries).

Funding in the amount of $4,010,500 net of Harmonized Sales Tax recoveries is included for Microsoft implementation consulting in the Council Approved Technology Services Division 2021 Capital Budget and 2022-2030 Capital Plan. Funding in the amount of $5,076,116 net of Harmonized Sales Tax recoveries is included in the Council Approved Technology Services Division 2021 Operating Budget submission for Microsoft O365 licenses and support and maintenance.

Additional licenses and services will be procured to align with the roll out schedule. Additional operating funding will be requested in the 2022 and 2023 Technology Services Division Operating Budget submissions. The annual estimated expenditures for the 5-year term of this award are summarized as follows:

Cost Centre / WBS #	June - Dec 2021	Jan - Dec 2022	Jan - Dec 2023	Jan- Dec 2024	Jan - Dec 2025	Jan - May 2026	Total
CIT045	3,090,500	620,000	300,000				4,010,500
IT1001	5,076,116	13,903,040	19,974,902	20,721,637	21,359,281	9,306,333	90,341,309

Cost Centre / WBS #	June - Dec 2021	Jan - Dec 2022	Jan - Dec 2023	Jan- Dec 2024	Jan - Dec 2025	Jan - May 2026	Total
Total	8,166,616	14,523,040	20,274,902	20,721,637	21,359,281	9,306,333	94,351,809

Cost Avoidance and Other Benefits

As a result of the implementation of the Microsoft 365 platform, the City is positioned to realize productivity benefits and cost avoidance throughout the contract term, as shown in the table below.

Table: Cost Avoided and Productivity Benefits

	Year 1 (June -Dec 2021	Year 2 (Jan-Dec 2022)	Year 3 (Jan-Dec 2023)	Year 4 (Jan-Dec 2024)	Year 5 (Jan-Dec 2025)	Year 6 (Jan-May 2026)	TOTAL
Estimated Productivity Benefits (Operating)			4,350,000	7,800,000	10,500,000	4,375,000	27,025,000
Estimated Costs Avoided (Capital)	20,500,000	20,500,000				8,541,667	49,541,667
Total Estimated Productivity Benefits & Costs Avoided	20,500,000	20,500,000	4,350,000	7,800,000	10,500,000	12,916,667	76,566,667

Following industry research,[2] it was determined, that in terms of quantifiable productivity impact, implementation of the enterprise Microsoft 365 platform can lead to each staff saving an average of 30 minutes per week after year 1 and gradually increase to 60 minutes in year 4 from gaining knowledge of the tools and using them more efficiently. As implementation activities are occurring in year 1 and year 2, the productivity benefits, shown in the table, have been calculated starting in year 3 (i.e. 2023), once the implementation is complete. As outlined in the table above, the total estimated productivity savings, for period of the five (5) year contract (2021-2026) could be up to $27 million.

Additionally, every five years, the City makes an investment in Microsoft on-premise solutions. The implementation of the modernized enterprise Microsoft 365 platform in 2021, will lead to a potential cost avoidance of up to $41 million over the first two years

[2] Source: 'The Total Economic Impact of Microsoft Office 365', by Forrester Consulting, February 2015

($20.5 million each in 2021 and 2022) of a five-year cycle. This is the comparative investment the City would have to make to enable on-premise solutions with similar capabilities. Continued investment in on-premise email and collaboration solutions does not align with the City's objectives of digital transformation, nor industry trends that many public sector organizations have adopted.

Currently, approximately 10,000 casual workers do not have access to the City network and City issued email addresses. To maintain an equitable and inclusive employee experience and provision them with these services, the City will have to invest in additional licenses for network accounts and email accounts in our current on-premise environment, as well as technology hardware and storage. This would be a potential investment of up to $2 million, which the City can avoid by investing in the Microsoft 365 platform. This amount has been included in the estimated costs avoided (capital) for 2022.

Overall, the City is expected to realize approximately $76.5 million in productivity benefits and costs avoided spread over the five (5) year period (2021-2026). Additionally, the City will benefit from this initiative, as it is critical for delivery of the ModernTO Workplace Modernization Program benefits and outcomes. It will also provide enhanced equitable and inclusive collaboration tools to improve operational efficiency within the City.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

On December 13, 14 and 15, 2016, City Council granted the authority under GM16.8 to the Chief Information Officer to enter into a new contract with Microsoft Canada, under the Province of Ontario's Enterprise Agreement, for the supply of cloud products and to conduct a Microsoft 365 Pilot Assessment, for a three-year period ending December 31, 2019. As a result, Purchase Order No. 6047456 was issued. The following is the link to City Council Decision Document:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.GM16.8

On December 17 and 18, 2019, City Council granted additional authority under GL10.9 to enter into an amending agreement with Microsoft Canada Inc. to extend the term of the agreement for a two-year period from January 1, 2020 to December 31, 2021, to increase its scope of work, and to increase the total amount of the agreement by $920,488 net of Harmonized Sales Tax ($936,689 net of Harmonized Sales Tax recoveries). The resulting amendment revised the existing contract value from $338,291 net of Harmonized Sales Tax to $1,258,779 net of Harmonized Sales Tax ($1,280,934 net of Harmonized Sales Tax recoveries). As a result, Purchase Order No. 6047456 was amended. The following is the link to City Council Decision Document:

http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.GL10.9

In February 2021, Purchase Order No. 6047456 was further amended to increase the contract value by an additional $235,073 net of Harmonized Sales tax ($239,210 net of Harmonized Sales Tax recoveries). The resulting amendment revised the existing contract value from $1,258,779 net of Harmonized Sales Tax to $1,493,852 net of Harmonized Sales Tax ($1,520,144 net of Harmonized Sales Tax recoveries).

On October 27, 28, and 30, 2020, City Council granted the authority under GL16.5 for the expenditure of $11,366,000 net of Harmonized Sales Tax ($11,566,042 net of Harmonized Sales Tax recoveries) for software support, maintenance and upgrades from Microsoft Canada from 2021 to 2025. The authority contemplated that the expenditures will be made under the Microsoft Unified Support Program that replaces the Premier Support Program. The following is the link to City Council Decision Document:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.GL16.5

COMMENTS

The City currently leverages the Province of Ontario's EA with Microsoft as the pricing and terms and conditions, available to the Broader Public Sector ("BPS") organizations under the Provincial EA, are more favourable than those of standard commercial agreements. This helps the City achieve the best available pricing for Microsoft software licensing, support services, and professional services.

The previous City Council approvals in December 2016 and November 2019 enabled the City to enter into an agreement with Microsoft, which took the form of an Enterprise Enrollment governed by the Provincial EA. This allowed the City to undertake projects which included the Microsoft 365 Pilot Assessment (pilot project).

The goal of the pilot project was to evaluate the value proposition of the Microsoft 365 platform to the City by understanding the implicit, qualitative, and quantitative value of products and process, as well as the budgetary implications of an enterprise deployment. The pilot project explored methods to modernize and enable productivity with an aim to gain a better understanding of the technical requirements and impacts of moving to a cloud-based solution.

In December 2019, based on the pilot outcomes, the Technology Services Division (at the time known as Information & Technology Division) recommended to City Council a go-forward enterprise Microsoft licensing strategy for the City. To establish the foundational infrastructure pillars for the City, it is proposed that the Microsoft 365 platform is adopted as an enterprise solution for the City and as the standard productivity suite for city staff.

The vision of the enterprise Microsoft 365 platform is to modernize the City's workplace productivity and enable the City to move towards its Digital Transformation goals. The platform will provide City staff with productivity and collaboration tools that can be used securely on any device, anytime and anywhere within City policy requirements. Benefits available through this platform include enhanced security and compliance, access and the ability to continuously work when not connected to the internet and availability of services through smart phone apps, such as Outlook, MS Office, etc. It will also allow availability of some services through other computing devices such as home or external PC and tablets, as deemed appropriate and secure, and enabled by any required enterprise People & Equity policies.

The City of Toronto employs approximately 37,000 employees including around 10,000 seasonal, casual and field workers. The ModernTO program approved by the City Council in 2019, aims to modernize how these employees work by enabling mobility and optimizing office spaces (EX9.3: ModernTO - Enabling a Flexible and Mobile Workplace). Microsoft 365 is one of the critical technologies that will be foundational for the delivery of the ModernTO Workplace Modernization Program. The ModernTO Program aims at enabling employees to work anywhere, anytime and from any device, within policy requirements.

There are great benefits of the ModernTO program to individual divisions, Agencies and Corporations, and to the City as a whole. Specifically, this program will support the employees with:

- More opportunities to work from home or a nearby office location and to collaborate and connect with colleagues from across our organizations
- Access to workspaces that best fits the tasks in hand as well as tools and resources to help adjust to the new ways of working
- A hybrid work environment
- Achieving broader environmental benefits such as reduction in greenhouse gas emission

The scope of the enterprise Microsoft 365 platform is to provide an enhanced experience for staff, including full time, part-time and casual workers. Currently, the pilot project has deployed access to 500 staff. At this time, seasonal and casual workers do not have access to City digital communication tools which increases dependencies on communicating through paper mail and other paper-based methods. Giving casual workers access to email and Microsoft 365 will improve communication and inclusivity, make them feel part of the City, reduce administrative effort of mailing hard copies of documents. It will also provide a secure way of communicating with all employees and reduce personal email utilization as many employees do not have a City email address.

With up to $41 million in cost avoidance and estimated annual productivity savings in the range of $7.8 million - $10.5 million, over a three (3) year period, described in the Financial Impact section, Microsoft 365 will enable an accelerated Digital Transformation. While the authorities being sought are for the planned full multi-year implementation of Microsoft 365 and related services in the city, it’s important to note that the City will be signing contracts with Microsoft committing to an initial 10,000 licenses and related implementation and support services. This commitment is within the 2021 operating and capital allocations included in the 2021 Budget. Additional licenses and services will be activated to align with the roll out schedule and included as part of an annual reconciliation exercise completed in May of each year with Microsoft and aligned with annual budget planning cycles.

Conclusion

Staff is proposing that Microsoft 365 platform is adopted as an enterprise solution for the City and as the standard productivity suite for city staff.

Microsoft 365 services provide a common platform within which we can achieve our goal of a well-run city, support modern workplaces, and enable continued digital government transformation. This platform is scalable and sustainable and will improve the City's business resiliency by gradually moving to a cloud environment.

In addition, the Microsoft 365 platform will ensure an equitable and inclusive employee experience by providing remote access and Microsoft tools to approximately 10,000 casual workers, who currently do not have City issued email addresses. It will also provide self-service tools to such casual employees to access Self-Service options related to Payroll, Pension & Employee benefits. Additionally, it will be leveraged to enable the delivery of data segregation of the Accountability Offices (AO) and Elected Officials (EO).

With Council approval, the City will receive the authority to amend the existing Enterprise Enrollment between the City and Microsoft to provide for Microsoft 365 licensing subscriptions for City users and execute a Professional Services agreement to implement the Microsoft 365 platform. It will also receive authority to execute an agreement which will provide support and maintenance for existing and new licensed services.

The Fair Wage Office has reported that Microsoft Canada Inc. has reviewed and understands the Fair Wage Policy and Labour Trades requirements. They have also agreed to fully comply.

CONTACT

Renee Laforet, Deputy Chief Technology Officer,
Technology Services Division,
Telephone: (416) 397-0500, Email: Renee.Laforet@toronto.ca

Jacquie Breen, Manager, Corporate Purchasing Policy & Quality Assurance,
Purchasing and Materials Management Division,
Telephone: (416) 392-0387, Email: Jacquie.Breen@toronto.ca

SIGNATURE

Lawrence Eta
Chief Technology Officer
Technology Services Division

Michael Pacholok
Chief Procurement Officer
Purchasing and Materials Management Division

ATTACHMENTS