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Microsoft Unified Support Contract Extension 2023/2024

For decision: For noting:

| Reason for inclusion in closed board meeting session | |
|---|--|
| 1. Please state why this report is being considered in the closed board meeting as opposed to the open board meeting. Please refer to the 'reasons for confidentiality' and provide a direct reference to one of these reasons. | To protect commercial interests – involves the negotiation of contracts. |
| 2. Please provide an estimated date for release of this report. | July 2023 |

Ngā tūtohunga / Recommendations

That the Auckland Transport Board (board):

- a) Approve a one-year extension to the Unified Support contract with Microsoft (contract number 4100009043) at an additional cost of up to \$6,518,123 (with a total 6-year value of \$29,138,863.84).
- b) Delegate authority to the Chief Executive to sign all required documents to give effect to the extension.

Te whakarāpopototanga matua / Executive summary

1. The Auckland Transport (AT) Delegations Manual (May 2021) requires board approval for this extension given the total contract value will be over \$20 million, and the length of this contract is over five years.
2. This is a business-critical support contract which covers support for all of AT's Microsoft systems and is required for business continuity and platform stability. Microsoft is a long standing, strategic technology partner to AT.
3. It should be noted that last year's contract figure also included Dynamic 365 CRM Enhanced Application Support (EAS). AT has offered this support component to the open market by issuing a Request for Proposal (RFP). A preferred supplier has been identified; however due diligence is still being undertaken to ensure that the services are comparable against AT's incumbent provider, Microsoft, both from a coverage and cost perspective. If the award is made to a supplier other than Microsoft, the scope and cost of this contract extension will be reduced proportionally by \$1,647,622, leaving \$4,870,500.56 as the contract value.

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Ngā tuinga ō mua / Previous deliberations

4. There is one previous deliberation about this contract for a similar request.

| Date | Report Title | Key Outcomes |
|-----------------|--|---|
| June 2022 Board | Microsoft Unified Support Contract Extension | The board approved a one-year extension to the Unified Support contract with Microsoft at an additional cost of \$5,581,264.33 and delegated authority to the Chief Executive to sign all required documents to give effect to the extension. |

Te horopaki me te tīaroaro rautaki / Context and strategic alignment

5. The Microsoft Unified Support contract (the contract) covers support for all of AT's Microsoft production environments and critical production systems in a single, comprehensive support contract. The contract provides direct access to Microsoft software engineers and ensures AT's access to reliable service level agreements and response times. The support structure is broken into Unified Support and Unified Performance.
6. Unified Support provides the Business Technology team with a base level of reactive support for every Microsoft product used by AT. Within this, there are several pillars of support:
 - Azure Systems Management Consultants (SMC)
 - Office 365 SMC
 - Dynamic 365 SMC
 - Enhanced Dedicated Engineering (EDE)
 - Proactive Engineering Credits
7. Microsoft provides problem resolution support, advisory support, escalation management for critical cases, on demand learning and assessments for AT staff, and an assigned customer support account manager. Microsoft ensures AT teams using Microsoft products are continuously educated, the Microsoft platforms are secure, and they engage with AT to ensure continuous improvement.
8. Unified Performance support can be grouped accordingly:

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- Cloud Infrastructure and Platforms and Productivity Tools: The Mission Critical Office 365 Transition support provides AT with access to the Microsoft Office 365 Mission Critical Engineering Team. This team has a deep understanding of AT's Teams, SharePoint and Exchange Online platforms and ensure they are kept up to date (evergreen lifecycle management), compliant, and secure. Building on the Mission Critical for Intelligent Cloud support, this includes a series of proactive and programmatic service engagements delivered by Microsoft Customer Engineers.
 - Application Support: The Mission Critical for Dynamics 365 support and the Enterprise Application Support supplement AT's online team by providing end-to-end lifecycle management and support for the Customer Relationship Management (CRM) platform and integration components.
 - Data and Analytics and Modern Security: The DSE provides access to a team of local and global Microsoft engineers (and associated intellectual property) who work closely with AT to enhance and secure the three Microsoft clouds (Azure, Dynamics, and Office 365).
9. In addition, last year's contract also included Dynamic 365 CRM Enhanced Application Support (EAS). On 16 February 2023, AT offered this support component to the open market by issuing an RFP. The RFP sought proposals from suppliers who can provide workflow, integration, and application support, along with enhancements to AT's Microsoft Dynamics 365 environment. Submissions closed in March, and a preferred supplier has been identified, however due diligence is being undertaken to benchmark this against AT's incumbent provider, Microsoft, both from a coverage and cost perspective. The associated cost for EAS has been included in the overall contract extension approval cost sought of \$6,518,123. If the award is made to a supplier other than Microsoft, the cost of this contract extension will be reduced.
10. The AT Delegations Manual (May 2021) requires board approval to be given for any contract extensions that commit AT to expenditure beyond a five-year total contract term (including rights of renewal) and / or have a total contract value of \$20 million or more.
11. The contract has been in place since 25 June 2018. This one-year extension will mean the contract has been in place for six years. The value of this extension is \$6,518,123. This will bring the total contract value over the whole contract period to \$29,138,863.84.

Ngā matapakinga me ngā tātaritanga / Discussion and analysis

12. Microsoft and AT have strategically partnered together for more than ten years, during which time the Microsoft New Zealand Team has developed a deep understanding of AT's business and key systems. Microsoft and its products have assisted in standing up some of AT's business systems and informing AT's decisions around its technology systems. Microsoft is also AT's Cloud Platform provider.
13. The strategic benefits to AT in maintaining this support contract with Microsoft include:
- a. Having access to leading Microsoft expert personnel whose expertise is Microsoft technology.
 - b. Allowing AT to be an early adopter by staying across the latest technological developments which in turn inform AT's technology roadmap.

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- c. Ensuring AT obtains value for money from its technology stack.
 - d. Providing access to a global resource base to ensure the robustness of AT’s systems and cyber security posture.
 - e. This support ensures critical AT business systems are not put at risk, which could otherwise compromise AT’s ability to serve its customers.
14. Microsoft is the only organisation that can provide the collective resource and breadth of expertise across AT’s Microsoft technology stack and strategic projects. By consolidating the support with Microsoft, it substantially reduces AT’s risk in respect of investment and development decisions around the projects to ensure the project solutions are aligned. However, market exercises such as the current RFP process for EAS allow AT to critically evaluate this view and the outcome of this process may inform future considerations in this area.
15. Over the years AT has had to use Microsoft’s expertise on several occasions under these support agreements to assist other third parties to support other AT applications like the websites where the local company’s expertise has not been able to solve the issues. Their ability to have engineers that can look deeply into the source code as it processes line by line has been invaluable.
16. The overall cost for the Unified Support services have increased by \$428,707 including an assumption that Microsoft will offer AT a Software Assurance Benefit of circa \$100,000. There is also a reduction of dedicated support engineer of 200 hours. \$196,000 worth of this cost increase is associated with AT’s purchase of additional E5 licenses. If Microsoft were to be successful in the RFP for the EAS support component, this will mean an increase of \$406,622 for this component compared to last year.

Ngā tūraru matua / Key risks and mitigations

| Key risk | Mitigation |
|--|--|
| This is a high value direct appointment that could be perceived as supplier favouritism. | This risk is mitigated by evidence that AT is willing to benchmark the contract in the open market, such as the current RFP. This should provide some insight as to how the incumbent supplier compares to other offerings. If it is concluded that the same or sufficiently similar benefit can be delivered by an alternate supplier at a lesser cost, then there may be additional components to explore to take to the open market. Microsoft is the only company that can offer an end-to-end service over all the products with the scale needed to support AT. Breaking components down does create the situation of vendors blaming each other in the event of an incident thus forcing AT to have more qualified resources in order to be the resolution owner. |
| There is a perceived risk of Microsoft influencing AT’s strategic technology decisions. | All AT’s contract decisions become part of the public record which provides transparency around such decisions. |

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| Key risk | Mitigation |
|--|---|
| There is a perceived risk of the EAS support component being removed from the Unified Support agreement. | Robust due diligence is being undertaken in the RFP process to ensure any alternative EAS proposal provides similar services against AT’s incumbent provider, Microsoft, both from a coverage and cost perspective. |

Ngā ritenga-ā-pūtea me ngā rauemi / Financial and resource impacts

- 17. This is a continuation of the contract that has been budgeted for in previous years. There is scope for cross charging expenditure to the Business Technology Capital Programme on a specific project basis which will need to be quantified in due course. This will be dependent on the support hours being used for either project or operational work on a case-by-case basis.
- 18. The support contracts include a number of allocated hours that are used for reviews, minor enhancements or other work as directed by AT to support the platforms. The hours have been based on the hours used over the previous years.
- 19. This agreement and the associated resourcing will also support the proposed reduction in head count at AT including of currently vacant roles and reduce the risk of core platform support as we move to the new operating model.

Ngā whaiwhakaaro ō te taiao me te panonitanga o te āhuarangi / Environment and climate change considerations

- 20. There are no environment or climate change considerations relevant to this contract extension request.

Ngā whakaaweawe me ngā whakaaro / Impacts and perspectives

Mana whenua

- 21. There are no mana whenua impacts to consider in relation to this contract extension request.
- 22. Microsoft has supported AT to implement the Te Reo language packs onto the platforms and will continue to assist us in this regard to widen the use of the language across our platforms.

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Ngā mema pōti / Elected members

23. Consultation with elected members is not relevant to this contract extension request.

Ngā rōpū kei raro i te Kaunihera / Council Controlled Organisations

24. AT Procurement leadership meets regularly with their Auckland Council counterparts and understand that Auckland Council is preparing to move to a Microsoft Unified Support agreement as well. The Council group is now exploring further opportunities for leveraging the group’s scale to deliver greater value, which includes reviewing and identifying opportunities within the broader Microsoft services environment.

Ngā kiritaki / Customers

25. Microsoft technology underpins much of AT’s overall customer service delivery. It is vital that these technologies are supported to ensure service levels are maintained. The development investment programme in this contract will enhance customer outcomes by leveraging Microsoft technology and expertise.

Ngā whaiwhakaaro haumaruru me ngā whaiwhakaaro hauora / Health, safety and wellbeing considerations

26. There are no health, safety and wellbeing considerations or impacts on our people or customers associated with this contract extension request.

Ā muri ake nei / Next steps


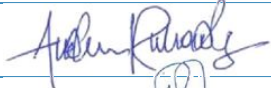
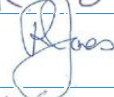

27. Assuming board approval, and any recommendations from the EAS RFP, the Chief Executive will be presented with the AT support contract variation assessments and the Microsoft Enterprise Services Work Order to execute, either with or without the EAS component, dependent on the result of the RFP. This needs to happen by close of business on 25 June 2023.

Te whakapiringa / Attachment

| Attachment number | Description |
|-------------------|--|
| 1 | Auckland Transport Microsoft Unified FY 24 (Customer Sales Presentation) |

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Te pou whenua tuhinga / Document ownership

| | | |
|--------------------------------|---|---|
| Submitted by | Nina Thomson Commercial Manager |  |
| | Andy Richards Group Manager Procurement |  |
| Recommended by | Roger Jones Executive General Manager Business Technology |  |
| Approved for submission | Mark Laing Acting Chief Executive |  |