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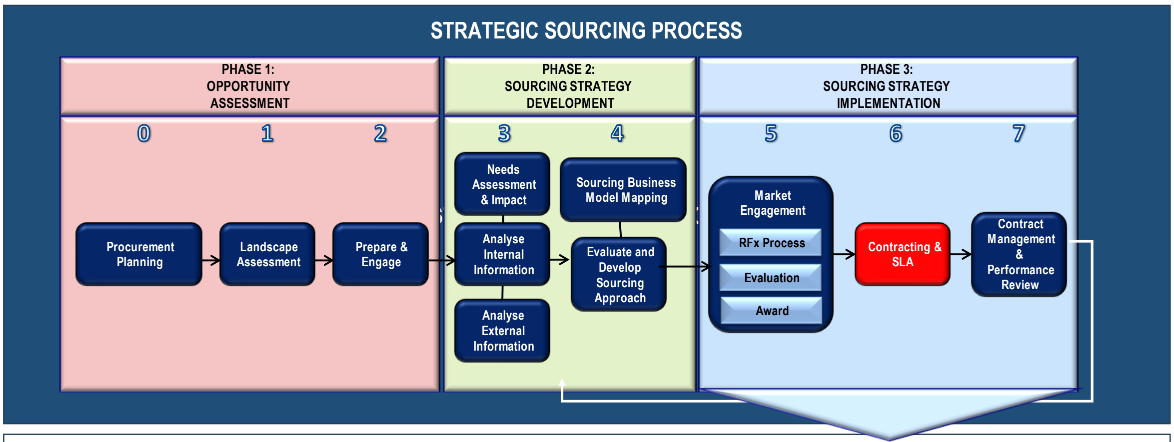
SPF GOOD PRACTICE GUIDE

CONTRACTING & SERVICE LEVEL AGREEMENT (SLA)

Using this guide
This guide accompanies the National Treasury's Strategic Procurement Framework (SPF) for Strategic Sourcing in the Public Sector. For more information, visit the National Treasury website at http://ocpo.treasury.gov.za/
The SPF can be found here:
http://ocpo.treasury.gov.za/Resource_Centre/Documents/1A.%20Strategic%20Procurement%20Framework.pdf

CONTRACTING & SERVICE LEVEL AGREEMENT (SLA)



6.0 CONTRACTING AND SERVICE LEVEL AGREEMENT
6.1 Draft SLA
6.2 Develop an Inception Report
6.3 Develop a Transition Plan
6.4 Develop KPIs

1.0 Introduction

i. At this stage, the procuring institution is working on the implementation of the sourcing strategy through contract and service-level agreements.

ii. It involves the elements of ensuring that there is a smooth change-over to a new contract, whilst providing guidelines on the transition to the new contract and the importance of having a service level agreement in place as a mechanism for managing the performance of the contract.

1.1 The objective

i. To set up the contract and/or Service Level Agreement (SLA), ensuring a smooth take over in contract management, transitioning to the new contractor and deciding on the most appropriate Key Performance Indicators (KPIs).

1.2 Output

i. A Service Level Agreement
ii. Inception report
iii. A Transition Plan
iv. List of Key Performance Indicators

2.0 The narrative

2.1 Drafting the service level agreement

2.1.1 What is a service level agreement?

i. A service level agreement (SLA) is an agreement between the provider and the user of the service that details what performance and quality will be provided. This agreement is legally enforceable if it is referred to in the contract.
ii. An SLA is the part of a contract which defines exactly what services a service provider will provide and the required level or standard for those services.
iii. The SLA is generally part of an outsourcing, contracted or managed services agreement, or can be used in facilities management agreements and other agreements for the provision of services.

2.2.2 What should be included in an SLA?

i. A properly drafted and well-thought-out SLA should have the following elements:

   a. It will state the business objectives to be achieved in the provision of the services.

   b. It will describe in detail the service deliverables.

   c. It will define the performance standards the customer expects in the provision of the services by the service provider.

d. It will provide an ongoing reporting mechanism for measuring the expected performance standards.

e. It will provide a remedial mechanism and compensation system where performance standards are not achieved, whilst incentivising the service provider to maintain a high level of performance.

f. It will provide a mechanism for review and change to the service levels throughout the contract.

g. Ultimately it will give the contracting parties the right to terminate the contract where performance standards fall consistently below an acceptable level and when the contracting parties are not honouring the contractual obligations.

2.2 Inception meeting

i. An inception meeting is the first meeting when starting a project.
ii. The project team members from both organisations, the procuring institution and the service provider, attend the meeting to discuss the project, its goals and the expectations of the project.
iii. The successful implementation of the contract depends on the parties reaching a clear understanding or "meeting of the minds".

2.2.1 The importance of an inception meeting

i. The inception report is an important tool for ensuring that mutual understanding of the parties to a contract.
ii. The appointed service provider is provided an opportunity to align the contract deliverables with the terms of reference in the tender document:

a. This works as an indicator that the service provider or supplier fully understands the project at hand.

b. It helps to explain certain aspects of the contract as a mechanism for reaching a consensus

c. It also provides an additional guarantee of adherence to and interpretation of the Terms of Reference (TOR).

d. It contains the project deliverables and milestones.

iii. An inception report document can then be used as a project monitoring tool.

2.3. Contract Transition

i. Contract transition enables a smooth change-over.

ii. This may take different forms:

a. Internal transition where the project or contract is handed over from the SCM unit to the project manager.

b. External transition where the contract with one service provider has reached its logical conclusion and now the same services will be undertaken by the next service provider.

iii. In closing out the previous stage of the procurement process, i.e. the award stage, you had to consider the following in going forward:

a. Hand over arrangements to the contract manager/contract management team;

b. Clarify any related contractual-related matters;

c. Ensure supplier(s) understand and commit to the agreed contractual terms and conditions;

d. Schedule any transition in/transition out requirements;

e. Method and timing of notification to successful and unsuccessful suppliers;

f. Arrangements for managing and conducting debriefings with suppliers;

g. Ensure that records of the sourcing process are kept by the management of public records; and

h. Publish the final contract award information on the relevant platform for example e-tender portal (http://www.etenders.gov.za/).

2.4 Key Performance Indicators (KPIs)

i. Key performance indicators (KPIs) are management tools designed to monitor supplier performance and help meet the goals, objectives and service levels of the contract.

ii. The KPIs must help direct you, improve performance levels, identify breakdowns in a process and be a driver of continuous improvement for more efficient and sustainable procurement processes.
iii. KPIs should be relevant to your institution or project and should be simple to use.
iv. When developing the KPIs, five or six should be enough.
v. It is important not to get overwhelmed and end up in a situation where you are serving the KPIs, instead of them serving your goals..
vi. If you are establishing your first KPIs, start with just one or two so that everyone can understand them and their purpose.
vii. You can always add more KPIs later.

2.4.1 How should you set up your KPIs?

i. Before you start, work out what your stakeholders need and what are the institution's strategies and objectives for the future.
ii. It starts with meeting the management as well as other stakeholders.
iii. Look for ways the SCM unit can help meet them, and then look for metrics that reveal your progress towards achieving those goals.
iv. There is no one-size-fits-all formula for all institutions and the goals as well as the KPIs are usually customised.
v. Everyone should be well aware of the metrics, the reporting as well as the goals.
vi. The metrics should then be signed off by management to maintain accountability. Reporting can then take place on the metrics in future progress meetings.
vii. The KPIs must meet the SMART concept as indicated in Figure 1.

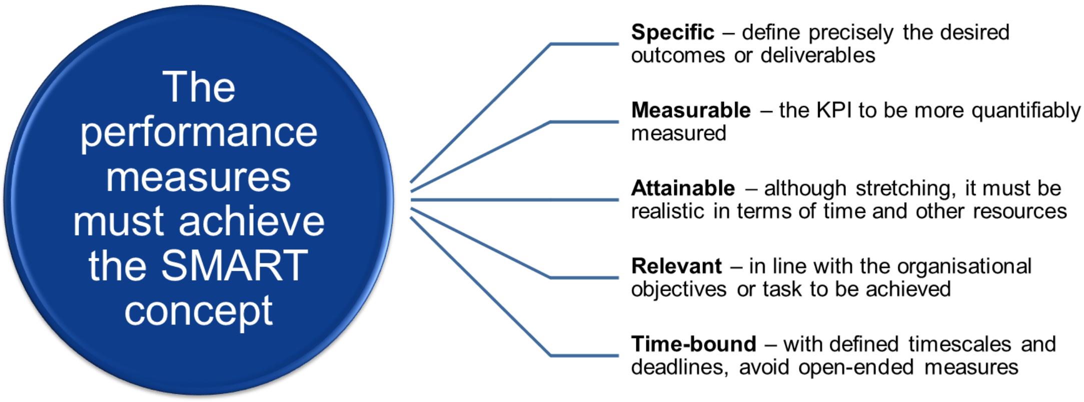


Figure 1: The SMART Concept

2.4.2 Major groups of KPIs

i. The goals of KPIs can be divided into five major groups according to their purpose:

   a. Receive savings (Cost)
   b. Increase quality (Quality)
   c. Improve delivery (Delivery)
   d. Timeliness of actions (Timeliness), and
   e. Improve transparency (Integrity).

ii. All groups are closely related. If you are setting up your KPIs from only one of the groups, you don't want to harm any of the others because it might decrease supply sustainability.

iii. Sustainability in this instance represents a balanced approach to performance management.

iv. Figure 2 shows how the various elements contribute to the sustainability approach on the key performance indicators.

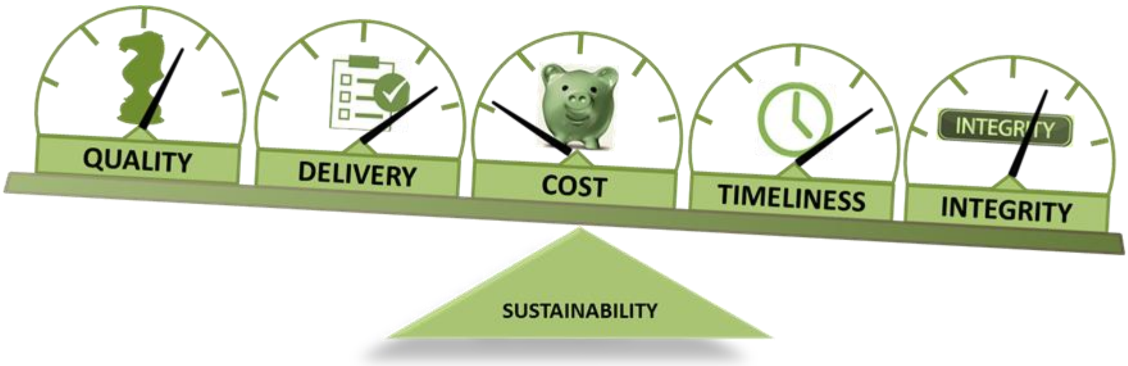


Figure 2: The Sustainability Approach

2.4.3 What you should avoid when setting up new KPIs

2.4.3.1 Focusing on cost savings can lead to late delivery or low-quality

i. You don't want to find yourself in a situation where your institution or project is waiting for missing strategic products/services and wasting high hourly costs just because you are focusing only on cost savings, and the cheap products/ services you bought didn't arrive on time.

2.4.3.2 Only set up what you can deliver

i. It's smart to keep in mind that you should only set up what you can deliver since you don't want to find yourself in a situation where you are constantly reporting on not meeting KPIs.
ii. If that becomes the case, it means your KPIs weren't carefully chosen.

2.4.3.3 The greatest output is achieved by balancing all KPIs

i. It's necessary to understand that cost savings, quality, delivery, timeliness, integrity and productivity are mutually inclusive and focusing on only one attribute could result in an overall less efficient system.
ii. A balance between all five KPIs is required for greater output.

2.4.3.4 Misusing KPIs Can Damage Business Processes

i. You have to be careful with all of your KPIs since misusing them can unintentionally create behaviour that the institution does not want to encourage.
ii. You don't want to find yourself in a situation where business units and buyers are hanging on to redundant stock only to protect KPIs when doing so is hurting business processes.
iii. Unnecessarily holding on to stock might also lead to depreciation, which further reduces the value of the stock.

2.4.3.5 Different stakeholders may have conflicting KPIs

i. When different stakeholders within the same team have conflicting KPIs and there is a KPI alignment issue between you and the organisation, you need to consider initiating a dialogue to solve the problem in a way that's best for the institution.