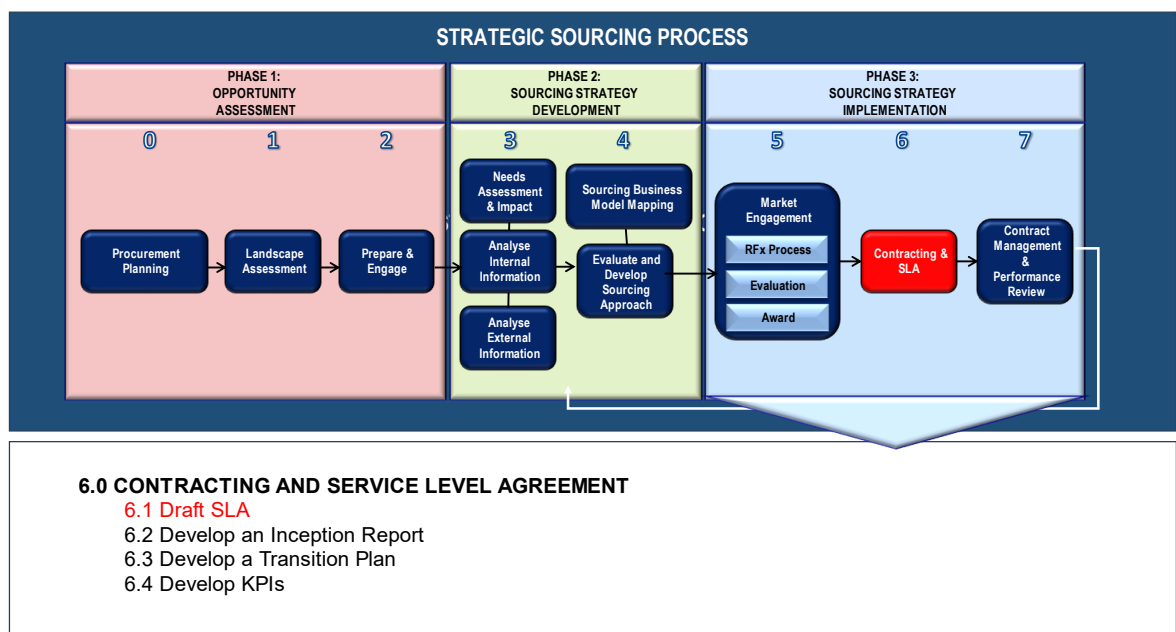


Using this guide

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](http://ocpo.treasury.gov.za/Resource%20Centre/Documents/1A.%20Strategic%20Procurement%20Framework.pdf)

DRAFT SERVICE LEVEL AGREEMENTS (SLA)



1.0 Introduction

- i. A service level agreement in a contract is used as a mechanism for monitoring performance in line with the contractual obligations.
- ii. The following good practice guides and templates apply to drafting a service-level agreement:
 - a. Service level agreement
 - b. The main elements of a good service level agreement
 - c. Other SLA provisions
 - d. Service level agreement (template)

1.1 Objective

- i. To give guidance on how to draft a Service Level Agreement (SLA) that is clear, concise and easy to manage.

1.2 Output

- i. A sound service level agreement

2.0 Good practice guides

2.1 Service level agreement

- i. The purpose of an SLA is to define the customer's service level needs and secure the commitment of the supplier to meet those needs.
- ii. Figure 1 indicates the three elements of the service level agreement.

Service	Level	Agreement
<ul style="list-style-type: none">• It specifies the services or goods required	<ul style="list-style-type: none">• It quantifies the level and quality of service-metrics, to which both parties agree, that are designed to indicate and evaluate the quality of the service delivered	<ul style="list-style-type: none">• It is negotiated at the commencement of a contract and involves an understanding of the needs and constraints of both parties

Figure 1: The Elements of the Service Level Agreement

2.1.1 What to measure

- i. At first it seems difficult to set measurement criteria for some levels, such as service suppliers, research agencies, etc.
- ii. This can be overcome by employing a step-by-step approach
- iii. Figure 2 indicates the step-by-step approach to drafting an SLA.

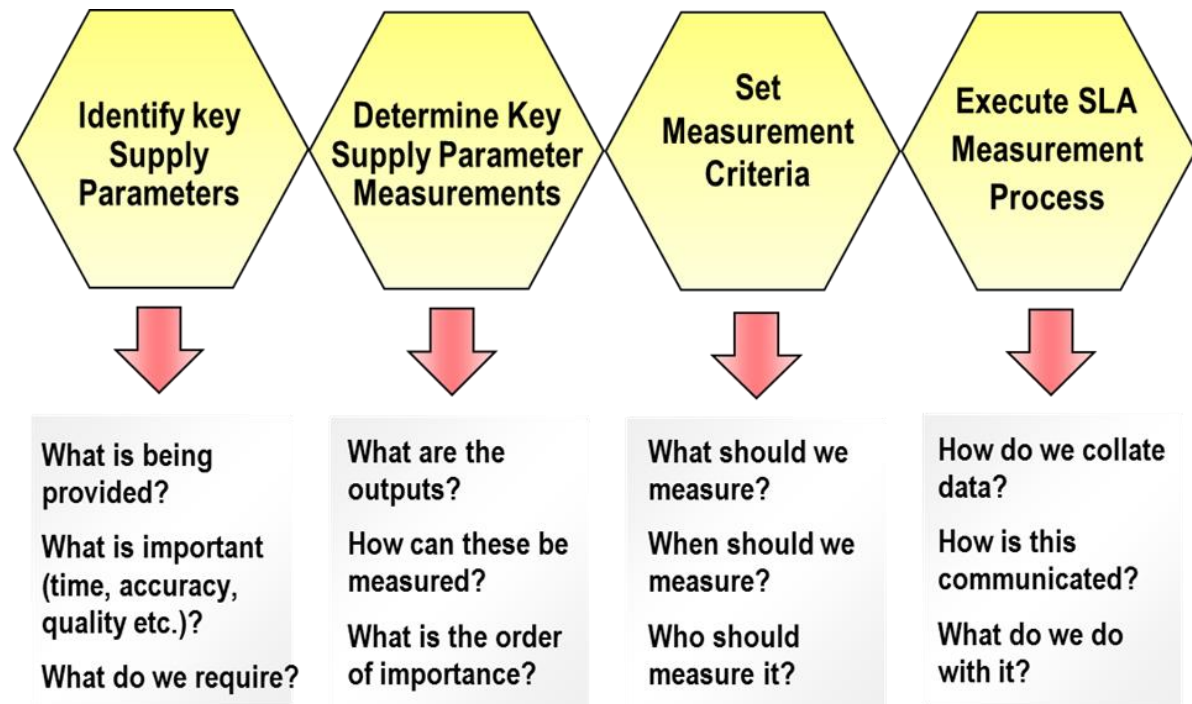


Figure 2: Step-by-step Approach to Drafting an SLA

2.1.2 Measures of service quality

- The SERVQUAL model of “service gaps” is used to measure the quality of services.
- Table 1 shows a typical SERVQUAL model for developing the SLA for a service contract.

Gap	Explanation	Buyer remedy
Gap between a buyer & supplier perceptions of quality	The supplier's definition of quality may be different from the buyer's	Both buyer and supplier to work closely to achieve meeting of the minds
Gap between concept and specification	Lack of skills in translating the concept into specifications	Buyer to work closely with the user departments to develop service specifications
Gap between specification and performance	The supplier specifications and service level agreements not translating to actual service levels	Buyer to pre-evaluate the supplier's capability to deliver
Gap between communication and performance	Supplier's communication may create wrong impressions, leading to inaccurate expectations	Buyer need to verify the information as provided by the supplier
Gap between buyer expectations and perceived service	What the buyer or user receives may fall short of expectations	Buyer to manage user expectations and perceptions. Be objective and accurate

Table 1: SERVQUAL Model

2.2 The main elements of a good service level agreement

2.2.1. Overall objectives

- i. The SLA should set out the overall objectives for the services to be provided.
- ii. For example, if the purpose of having an external provider is to improve performance, save costs or provide access to skills and/or technologies which cannot be provided internally, then the SLA should say so.
- iii. This will help the customer design the service levels to meet these objectives and should leave the service provider in no doubt as to what is required and why.

2.2.2. Description of the Services

- i. The SLA should include a detailed description of the services.
- ii. Each service should be defined i.e. there should be a description of what the service is, where it is to be provided, to whom it is to be provided and when it is required.
- iii. For example, if one of the services is the delivery of a specific report, the relevant provision of the SLA should describe the report, state what it should include, state its format (perhaps referring to a specific template), how it is to be delivered (e.g. by email), to whom, when and at what frequency (e.g. to the project manager weekly by 10 am each Friday).

2.2.3. Performance standards

- i. Then, taking each service in turn, the customer should state the expected standards of performance.
- ii. This will vary depending on the service. Using the "reporting" example referred to above, a possible service level could be 99.5%.
- iii. However, this has to be considered carefully.
- iv. Often a customer will want performance standards at the highest level.
- v. Whilst this is understandable, in practice this might prove to be impossible, unnecessary or very expensive to achieve.
- vi. On the other hand, the service provider may well argue that service levels should be set deliberately low to guarantee that the service can be provided at a competitive price.

- vii. It is all a matter of judgement and the customer will need to consider each service level carefully. Often individual services will be weighted differently depending on their business importance.
- viii. Performance standards for the availability of an online service are generally high as the customer needs to ensure constant availability of the service.
- ix. Other individual services may be less important and the service levels for these can be set at a lower level.
- x. The service provider and the customer will also need to set these performance standards in the context of anticipated workloads. The service levels may need to vary in the light of any changes to these workloads during the contract.
- xi. All this can be built into the SLA so that the cost implications of a change in workload can be factored in.

2.2.4. Service penalties

- i. For the SLA to carry weight, failure to achieve the service levels needs to have a consequence for the service provider.
- ii. This is most often achieved through the inclusion of a service penalty system.
- iii. Where the service provider fails to achieve the agreed performance standards, the service provider should pay a penalty. This should act as an incentive for improved performance.
- iv. These service penalties can be measured in several ways.
- v. For example, if the 99.5% level for reporting is not achieved, the SLA could include a service penalty that a specified reduction in price is given for each 0.5% shortfall in performance each week.
- vi. Alternatively, service penalties can be given where there are, say, three or more failures to meet a service level in any specified period.
- vii. Each service level needs to be looked at individually and a sensible penalty agreed upon between the service provider and the customer for failure to achieve the agreed level over a specified period.
- viii. The important thing is to ensure that the service penalties are reasonable and incentivise the service provider to do better, and that they take effect early enough to make a difference.

2.2.5. Critical failure

- i. Service penalties are useful in getting the service provider to improve its performance, but what happens when service performance falls well below the expected level?
- ii. If the SLA only included a service penalty system then, unless the service provided was so bad as to constitute a material breach of the contract as a whole, the customer could find itself in the position of having to pay for an unsatisfactory overall performance.
- iii. The solution is to include a right for the customer to terminate the agreement if service delivery becomes unacceptably bad.
- iv. So the SLA should include a level of critical service level failure, below which the service provider has this termination right (and the right to sue for damages).
- v. For example, if service penalties kick in if a service level failure has occurred twice in a particular period, the SLA could state that the customer has the right to terminate the agreement for material breach if the service level has not been achieved, say, eight times in the same period.
- vi. Again, as with service penalties, each service level has to be looked at individually and weighted according to business importance.
- vii. In addition, the SLA could group certain service levels to calculate service penalties and the right to terminate for critical failure.

2.3 Other SLA provisions

- i. Whilst service levels, service penalties and the right to terminate are the main provisions in a Service Level Agreement, depending on the structure of the entire agreement, an SLA can include other matters, such as the following:

2.3.1. Changes to pricing

- i. Pricing may need to vary depending on several factors and the SLA may therefore include a pricing review mechanism.

2.3.2. Contract management

- i. In longer-term contracts, the parties will need to keep the performance of the services under review.

- ii. Provisions dealing with reporting, meetings, information provision and escalation procedures for disputes are sometimes included in the SLA rather than in the main body of the agreement.
- iii. Unfortunately these types of provisions are often overlooked, but for a contract for services to be successful, contract management procedures must be agreed upon and followed.

2.3.3. Change control

- i. Often the SLA will include a change control procedure, which sets out a mechanism for agreeing and recording changes to the agreement or to the services to be provided.
- ii. In an agreement of any length or complexity, it is inevitable that changes will be made to the services (which will have a knock-on effect on the service levels) and an agreed and properly implemented change control procedure is vital.

2.3.4 Common mistakes

- i. Unfortunately many Service Level Agreements are not good and do not provide the protection the customer requires.
- ii. Here are some of the more common mistakes:
 - a. Don't let the service provider draft the service level agreement. Customers need to go through the process of deciding what services need to be provided, how they are to be provided, when, where and to whom.
 - b. Do not allow the service level agreement to become a marketing document. This can happen when the service provider prepares the SLA. In such a situation the first draft SLA contains large chunks of material taken from marketing documents which do little more than provide a high-level overview of the services without any detail. These statements are often not measurable and therefore difficult to enforce. Avoid subjectivity.
 - c. Do not leave the preparation of the Service Level Agreement until the last minute. The SLA should take priority and should be worked up at the start of the process. A last-minute introduction of a strict SLA might lead your service provider to revise their pricing upwards.
 - d. Do not aim for absolute perfection. Instead, prioritise which service levels are most important. When drafting, do not expect an unrealistically high level of service performance as this may (a) not be necessary and (b) lead to an increase in the price. There must be enough in the contract for the service

provider otherwise the relationship will not work from the outset. Remember that the best outcome is a long-lasting and mutually beneficial relationship with the service provider.

- e. Don't overdo it! Remember that someone from the customer side needs to monitor service levels and compliance by the service provider. If you include too many detailed service levels which you cannot effectively monitor (due to a lack of people/expertise etc.) then the efficacy of the SLA is reduced.
 - f. Don't have service levels without a penalty system of some sort. Include service penalties: there must be an incentive for the service provider to do better.
 - g. Don't have overly long service level measurement periods.
 - h. Contracts, where performance is measured over several months before any right-to-service penalties arise, may lead to the customer having to put up with a sub-standard performance for a long period without any right to a remedy under the agreement.
 - i. Take care if you want to base service levels with an external service provider on non-binding internal service levels. Sometimes organisations have their internal service levels which are not legally enforceable but are used as a guideline for the expected level of service to be provided by one part of an organisation to another (e.g. the IT or HR function). Don't be tempted just to apply these to an external service provider without consideration, particularly, of the business objectives for the services.
 - j. Don't lose sight of your objectives. Ensure the service levels reflect the overall objectives of the contract. If the major business objective is to save money, ensure that the service levels are focused on achieving this.
 - k. Always include a right to terminate for critical failure and define carefully what "critical failure" actually means. You might not want to use this right, but if service performance is poor, you will be glad that you have it in the contract.
- iii. Putting together an SLA can be a difficult process, as it often involves documenting processes which have previously arisen organically within an organisation. But if you keep your business objectives in mind and follow the tips in this guide, any SLA you produce should enhance the business relationship with your service provider and help you receive the service you expect.

Sources:

<http://www.kestonelaw.co.uk/other/keynotes/2012/02/service-level-agreements/>

3.0 Templates

<Service Agreement Name>

Service Level Agreement between

<Name A> and

<Name B>

1 INTRODUCTION

1.1 PURPOSE AND OBJECTIVES

This section should contain a brief statement of the purpose and objectives of the service level agreement (SLA).

1.1.1 Purpose

Provide a short description of what would be achieved with this mutual agreement between the procuring institution and the Service Provider.

1.1.2 Objectives

Describe the high-level objectives that would be achieved as a result of this SLA.

1.2 PARTIES TO THE AGREEMENT

The parties to this agreement are:

Name A

Physical Address

And

Name B

Physical Address

Note: A separate SLA should be entered into for each service provider. Where a primary service provider makes use of sub-contractors, an SLA is only entered into with the primary service provider.

1.3 COMMENCEMENT DATE

The effective date of the legal Agreement between both parties

1.4 DURATION OF THE AGREEMENT

The validity period of the SLA is specified.

Note: An SLA should not be signed for agreements that require a once-off service.

1.5 DEFINITIONS

Definition of the terms used in the SLA to prevent misunderstanding. The definitions and terms are negotiated at the time of the conclusion of the agreement.

2 PERIODIC REVIEW

Provides an option to review the SLA on mutual agreement or at pre-specified intervals to ensure that it is still relevant to the requirements of the service received.

This includes who is responsible for the update of the document and where it will be stored.

3 GOVERNANCE ARRANGEMENTS

Who represents the parties to the agreement, how the terms of the agreement will be monitored and the governance roles of the responsible persons?

3.1 Name A

Contact Person:

Contact details:

Physical address:

Telephone Numbers:

E-mail address:

3.2 Name B

Contact Person:

Contact details:

Physical address:

Telephone Numbers:

E-mail address:

3.3 SLA GOVERNANCE

An SLA governance meeting will be held between the procuring institution and the Service provider every month on the XX day of the Month (or the closest working day). The SLA meeting will be chaired by the representative of the procuring institution. The

Service Provider is responsible for providing administrative services for the meeting. The meeting will consider:

- SLA Key Performance Areas;
- Related service levels, targets and quality;
- To what extent these were met (measurement); and
- Related penalties (if required).

Note: The monthly SLA meeting will be conducted before the monies due for the previous month are paid.

4 SERVICES DESCRIPTIONS

This section of the SLA shall provide a full description of the services provided by the Service Provider. This should include all specific activities that will be required including how specific services are to be provided, resource requirements, adhering to the defined schedule of activities and all service delivery processes used/supported.

Example

Service Name	Description	Key Performance Indicator	Delivery Date	Service Level	Service

Table 2: Service Descriptions

5 5 RESPONSIBILITIES

5.1 Name A

-

5.2 Name B

-

6 SERVICE MANAGEMENT

Service Availability, Maintenance, Measurement, and Reporting

6.1 SERVICE AVAILABILITY

Specify and agree on the availability of required services. Availability can be specified as a percentage of time or as a period which is free from operational failures, it may be broken down by application, environment or categories specific.

Service Name	Availability Period	Maintenance Window	Availability (%)	Restrictions

Table 3: Service Availability

6.2 SERVICE MAINTENANCE

Specify the scope of work for all services if applicable. It may sometimes render the service unavailable.

Time	Saturday	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday

Time	Saturday	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday

Table 4: Service Maintenance

6.3 SERVICE MEASUREMENT

Establish the measurements to be used to ensure the optimal provision of services. Measurements can be defined in terms of service availability (i.e. uptime), service performance (i.e. throughput, response time) and service quality (i.e. number of unscheduled outages, customer surveys).

Service Metric	Definition	Baseline	Low Performance	High Performance	Breach

Table 5: Service Measurement

6.4 SERVICE REQUESTS

Establish the response type or time by the Service Provider based on a request. Specific incident and/or request parameters, thresholds and/or samples could be used.

Example:

In support of services outlined in this SLA, the Service Provider will respond to service-related incidents and/or requests within the following time frames:

- One (1) hour (during business hours) for issues classified as Critical.
- Two (2) hours (during business hours) for issues classified as High priority.
- Four (4) hours (during business hours) for issues classified as Medium priority.
- Eight (8) hours (during business hours) for issues classified as Low priority.

- Twenty-four (24) hours (during business hours) for a general service request.

6.5 SERVICE REPORTING

Specify the reporting needed by the procuring institution to ensure that service levels are maintained. These reports must align with the service measurements of Table 1.

Report Name	Report Description	Report Interval	Recipient

Table 6: Service Reporting

The following are responsible for the deployment and ongoing support of this agreement: (contact information may include E-mail address, phone number, support line, etc.)

Contact Person	Title / Role	Contact Information
[Name]	[Title / Role]	[Contact Information]
[Name]	[Title / Role]	[Contact Information]

Table 7: Key Contacts

6.6 SERVICE LEVEL CREDITS

This relates to the failure of the supplier/the basic partner to meet service levels which have been monitored and measured under the SLA, and so providing the procuring institution a credit. The service credits are calculated by reference to the supplier's charges for providing the service.

Note: Service credits play a significant role in encouraging the right behaviour between parties. If the service credits are set too low, the procuring institution is likely to become

frustrated by the basic Service Provider's failure to perform and to look for opportunities to terminate. If they are too high, then the Service Provider might become overly focused on performing to the "letter of the contract", rather than providing an overall service. The most rational approach is for service credits to be negotiated by reference to the risk and responsibility shared between the parties, rather than by reference to the basic partner/the supplier's profit.

6.7 SERVICE CONTINUITY MANAGEMENT

Specifies service recovery plans and related details if required. Identify the requirements of Service Continuity Management including the time frame for restoring key business functions and the time frame for restoring all business functions.

7 SUPPORTING DOCUMENTATION

Specify the documentation that is associated with this Agreement.

Document Name	Description

Table 8: Supporting Documentation

8 TERMINATION OF AGREEMENT

Addresses provisions to define the events that will trigger termination, other than termination of the contract.

For example, a persistent failure to meet the service levels over some time will give rise to a right of termination. It is common for service contracts to include a right of termination for a "material" breach. However, this term is not always easy to define and may not introduce the level of certainty required. A "material breach" is subjective and will depend upon the terms and duration of the agreement, the nature and consequences of the breach and the factual background. The content of this

paragraph should be negotiated between the procuring institution and the service provider.

9 AGREEMENT APPROVAL

Example

Procuring Institution

Date

Service Provider

Date