

# How to Prepare Service Level Agreements



A guide to preparing Service Level Agreements with practical examples



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### 1. What is a Service Level Agreement (SLA)?

Possibly the best known definition of an SLA is that of Hiles[1]:

‘An agreement between the provider of a service and its users, which quantifies the minimum quality of service which meets business needs.’ The term ‘customer’ is often applied, as in this handbook, to refer to the user of a service.

### 2. SLAs, charters and service guarantees

SLAs are distinct from service charters and service guarantees. A service guarantee promises the customer a certain service quality and backs up this promise with a payout.[2] The promises given in a service guarantee may refer to the service as a totality or to specific aspects of the service.

In what are known as ‘total satisfaction guarantees’, the payout is a total refund of the cost should the customer be dissatisfied. Specific service guarantees limit the payout to compensation for dissatisfaction with identified aspects of the service, such as late delivery.

Service guarantees also are distinct from ‘charters’. Charters such as The Patients’ Charter or The Parents’ Charter are often derived from Central Government initiatives, legal requirements or good professional practice, but, unlike service guarantees, they do not promise a payout if the promised level of service is not achieved. Thus The Patients’ Charter includes such standards as:

- emergency (999 call) ambulances should arrive within 14 minutes if you live in an urban area or 19 minutes in a rural area
- all health workers should show consideration towards your privacy, dignity and religious and cultural beliefs.

No payment will be made if the service fails to meet these standards. Charters do, however, specify the standards that service providers are expected to meet and provide customers with an indication of the level of service they are entitled to expect.

The main difference between SLAs and service guarantees are as set out in Table 1.

**Table 1**

SLAs	Service guarantees
<ul style="list-style-type: none"><li>• Are <u>bilateral</u>, such as service levels negotiated between the customer and the provider.</li><li>• Are <u>tailor-made</u> to suit the requirements of the customer.</li><li>• Are often required by the customer, for example, provision of information necessary for the provider to meet the agreed levels.</li></ul>	<ul style="list-style-type: none"><li>• Are <u>unilateral</u>, such as service levels decided solely by the provider.</li><li>• Are ‘<u>off-the-peg</u>’ standards, promised by the provider.</li><li>• Do not normally require customer inputs.</li></ul>

Internal SLAs are not intended to have legal consequences, since customer and service provider are members of the same organisation. There will also be no monetary compensation, although non-compliance may be penalised indirectly. For example, service providers may be required to work overtime without pay to make good a failure to meet the promised performance levels.

External SLAs will have contractual implications. It is recommended that they are generally a part of the outsourcing contract and should be treated as a schedule (or part of a schedule) to the agreement.

The European Public Procurement Directives (2004/18/EC) apply to organisations ordinarily covered by these rules. Under the Directives, it is illegal to use tender assessment criteria that have not been brought to the tenderers' notice before they submit their bids. Much of what goes into the SLA could be used for tender assessment purposes. The public sector purchaser could therefore include SLA targets and standards in the Invitation to Tender (ITT).

### 3. Service levels

#### 3.1 Principles of setting service levels

The purpose of setting service levels is to enable the customer to monitor and control the performance of the service received from the provider against mutually agreed standards.

Mutually agreed service levels are benchmarked for both customers and providers. For customers, the minimum acceptable level of service is that required to meet the present requirements of a particular function, activity or organisation, and against which required levels can be increased, reduced or deleted in the future. For providers, service levels indicate promised minimum standards to which they must adhere. When service levels are not met, the onus is on the provider to take appropriate remedial action. There are four main principles that should be observed when agreeing service levels.

Service levels should be:

- Reasonable, since unnecessarily high service levels may entail higher charges and focus the attention of service providers on those aspects of service that are being monitored, with possible reduction of attention to non-monitored aspects.
- Prioritised by the customer, that is, customers should identify the aspects of a required service that are important and prioritise them in order along an agreed scale. Thus computer software errors may be categorised as: (1) 'critical'; (2) 'major'; (3) 'urgent'; (4) 'important'; and (5) 'minor'. A three-point scale might include criteria that are: (1) 'most important'; (2) 'important'; (3) 'less important'.
- Easily monitored, this means avoiding the specification of levels that are subjective, intangible or incapable of quantification; for example, statements such as 'the provider will furnish a high level of service' are meaningless.
- Readily understood by the staffs of both customers and providers.

### 3.2 Performance criteria

Performance criteria in relation to services are an aspect of quality management. Service quality may be defined as:

‘The degree to which customers’ satisfaction with a service meets the expectancies they had about that service before using it.’[3]

Factors that determine customer expectations include:

- what customers think they need;
- their past experiences of using a service;
- what others have experienced in respect of a service;
- what service providers promise;
- benchmarking against other providers;
- the price paid.

Service expectations that form the basis of performance criteria are both general and specific.

3.2.1 General factors General factors include those identified by Parasuraman, Zeithaml and Berry that they applied to an assessment tool SERVQUAL that aimed to measure both customer expectations and satisfactions in specific service applications or providers. The above writers originally specified ten dimensions of service quality.[4]

These are set out in Table 2.

**Table 2**

Dimension	Definition	Example
Tangibles	Appearance of physical facilities, equipment, staff and communication materials	Does the service have pleasant offices?
Reliability	Ability to perform the promised service dependably and accurately	Is the contracted service always delivered on time and to specification?
Responsiveness	Willingness to help customers and provide prompt service	Do service staff always try to assist customers, especially with exceptional problems and situations?
Competence	Possession of the required skills to perform the service	Are the staff good at their jobs?
Courtesy	Politeness, respect, consideration and friendliness of staff	Do staff treat customers with respect?
Credibility	Trustworthiness, believability and honesty of staff	Do customers trust the staff of the provider?

Security	Freedom from danger, risk or doubt	Do customers feel safe using the service?
Access	Approachability and ease of contact	Is it easy for customers to access the service?
<b>Dimension</b>	<b>Definition</b>	<b>Example</b>
Communication	Keeping customers informed in language they understand and listening to their requirements	Do service providers keep customers informed regarding achievements or likely non-achievement of service levels and possible improvements?
Understanding the customer	Making efforts to know customers and their requirements	Does the service provider attempt to ascertain and meet the needs of the individual customer?

The ten quality dimensions listed in Table 2 can be reduced to five, namely:

Tangibles	Defined in Table 2.
Reliability	Defined in Table 2.
Responsiveness	Defined in Table 2.
Assurance	Customer confidence in the service providers based on belief in their competence, courtesy, credibility and security
Empathy	Customer confidence that the service providers will identify with the customer's service requirements and expectations in relation to, for example, ease of access, good two-way communication and understanding.

### 3.2.2 Specific factors

Specific factors vary according to the nature of the service and the individual customer. Examples of SLAs relating to cleaning and catering are shown in Figures 1 and 2.[5]



**Figure 1 - Service provision (cleaning)**

Service Levels		
1	2	3
<ul style="list-style-type: none"> <li>• Good standard of appearance with the absence of soil.</li> <li>• All waste cleared away and disposed of with zero impact on business. Full daily clean and emptying of bins.</li> <li>• Response to a request for cleaning assistance and spillages and other debris to be cleared away quickly and efficiently with minimum disruption to users. 45-minute response to all areas.</li> <li>• An emergency cleaning service to be provided outside normal working hours with 24-hour call-out facility.</li> <li>• Compliance with all legislation, adequate records maintained, zero exposures.</li> </ul>	<ul style="list-style-type: none"> <li>• Full floor clean not to exceed 5 working days.</li> <li>• Waste emptied to prevent over-filling.</li> <li>• Spillages – 15 minutes to prestige areas and 45 minutes to other areas.</li> <li>• Emergency call-out response: 2 hours.</li> </ul>	<ul style="list-style-type: none"> <li>• High standard of cleanliness and appearance at all times, with particular attention to well finished services.</li> <li>• Full floor clean not to exceed 5 working days.</li> <li>• Waste emptied to prevent overfilling.</li> <li>• Spillages – immediate response to prestige areas and 45 minutes to other areas.</li> </ul>

**Figure 2 - Service provision (catering)**

Service Levels		
1	2	3
<ul style="list-style-type: none"> <li>• To provide financial information to allow the management of budgets against pre-determined targets to ensure a cost-efficient service.</li> <li>• To provide customers with quality food they want to eat.</li> <li>• To communicate with the customer.</li> <li>• To keep updated and respond to market trends in food and service.</li> <li>• To comply with relevant legislation and company policies, practices and procedures.</li> <li>• To train all staff in core values, operational procedures and service levels.</li> </ul>	<ul style="list-style-type: none"> <li>• To maximise customer satisfaction and continually exceed their expectations.</li> </ul>	

### 4. SLA applications

SLAs are applicable in two situations: in the provision of internal specialist support services; and in outsourcing.

#### 4.1 Internally used and provided specialist support services

The first SLAs were developed to meet the criticism that electronic data processing (EDP) systems were often developed by headquarters specialists who failed to give sufficient consideration to the needs of the system users. The aim of such early SLAs was to make EDP provision more customer-orientated or 'user friendly'.

A later development was the concept advanced by the Japanese quality guru, Kaoru Ishikawa, that 'the next process should add value to the one that went before'. This means that the benefits of a service received by an internal customer from an internal supplier, as well as the costs of delivering the service, should be capable of being quantified in money terms. Many private and public sector organisations have adopted the approach that, within an organisation, information technology, legal, human resources, purchasing and other support services may sell their expertise to internal customers at an agreed transfer price. Among the private sector companies that have done so in the UK are Powergen, Prudential and Sony. Public sector organisations include some Central Government departments and municipal and health authorities. SLAs are required to specify the level of service required by customers from suppliers.

#### 4.2 Outsourcing

Outsourcing may be defined as:

'The purchasing of a specific service(s) or facility(ies) from an outside provider under the terms of a contract which should include a service level agreement.'

According to the British Government Market Testing Programme (1993) the functions, services or facilities most easily outsourced are those that are:

- 'resource' intensive – especially those with high labour or capital costs
- relatively discrete areas
- specialist and other areas
- characterised by fluctuating work patterns in loading and throughput
- subject to quickly changing markets for which it is costly to recruit, train and re-train staff
- subject to a rapidly changing technology requiring expensive investment.

Examples of outsourced services include:

- building repairs and maintenance
- car park management
- catering and hospitality
- computers and information technology
- library and information services
- medical/welfare
- pest control
- security
- training centre management
- transport management



- travel administration
- waste disposal.

Rothery and Robinson [6] state that the following activities should not be outsourced without careful consideration:

- management of strategic planning
- management of finance
- management of management consultancy
- control of supplies
- quality and environmental management
- supervision of regulatory requirements such as: product liability; misleading advertising; quality; environmental regulation; staff health and safety; and product/service safety.

For all outsourced services it is important to specify minimum acceptable service levels and to establish procedures to ensure that the agreed levels are being met and to consider whether they need to be reviewed.

Issues around outsourcing warrant their own considerations, for example, legislation relating to the Transfer of Undertakings Regulations (TUPE). As a result of TUPE regulations, the same people will provide the service in an outsourced arrangement as were providing it in-house. They will therefore retain their views and behaviours about using service level agreements which could be positive or negative. CIPS have produced Knowledge Works papers to cover outsourcing and the TUPE regulations.

## 5. The advantages and disadvantages of SLAs

### 5.1 Advantages

- The customers for, and providers of, specific services are clearly identified.
- Attention is focused on what a particular service or services actually do, as distinct from what it is believed they do.
- Customers are more aware of what services they receive and what additional services and levels of service a provider can offer.
- It is clear what the real needs and levels of service required by the customer are, and whether these can be modified at a possibly reduced cost.
- Services and service levels that add value can be distinguished from those that do not.
- Customers have a heightened awareness of what a service or level of service costs and can then evaluate the service or level on a cost/benefit basis.
- Monitoring of services and service levels is facilitated.
- Customer reporting of failure to meet service levels enables providers to eliminate the causes and effect improvements.
- Understanding and trust are fostered between customers and providers.

### 5.2 Disadvantages

- The joint drafting of SLAs, installation of measurement procedures and negotiation of SLAs are costly to both customers and providers.
- There is a potential increase in bureaucracy and paperwork.
- Internal providers of services may be treated as external suppliers rather than as colleagues within the same organisation.

- Staff training may be needed in the working of SLAs and to overcome possible initial resistance to their introduction.
- Internal SLAs are already feasible if they provide clear benefits to both customers and providers that outweigh the cost involved.
- The need to select specific metrics to measure performance can end up with the supplier department chasing the numbers, rather than making the decisions that provide the best outcome to the customer department. This is true of any key performance indicators (KPIs). It is therefore important to ensure that KPIs within SLAs are rounded.
- SLAs are an important measure of general overall performance, but there are some services where failure is critical. In these instances, contracts should demonstrate the Failure Mode & Critical Analysis (FMCA) methodology.

## 6. The preparation of SLAs

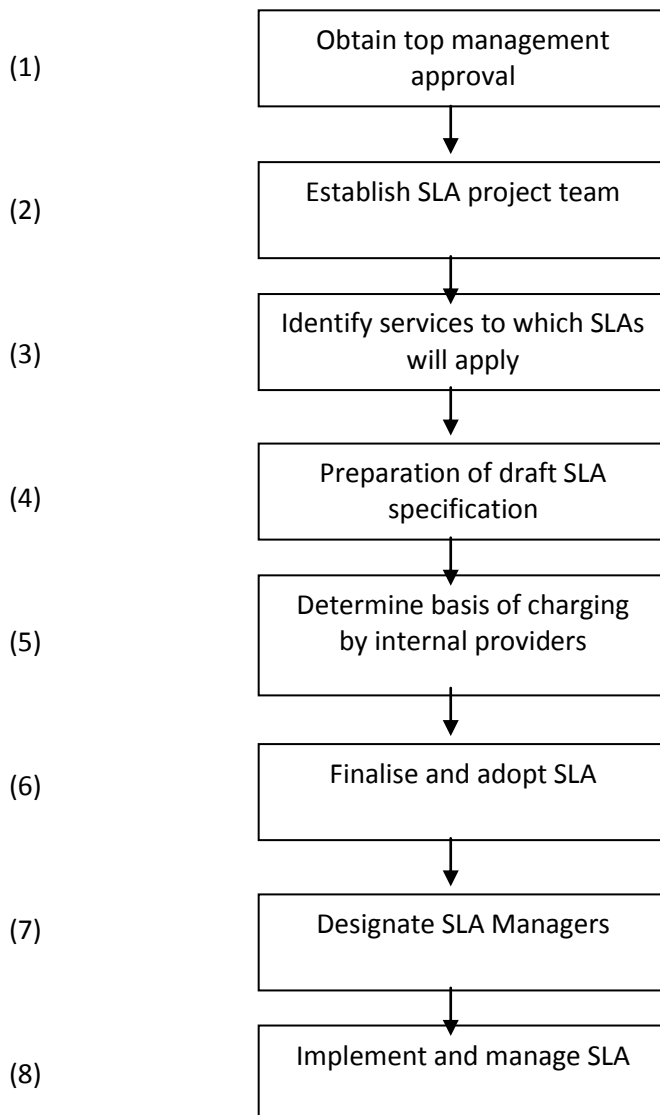
### 6.1 Outsourced services

Service providers usually have standard SLAs indicating the service level and key performance indicator(s) for each activity. With outsourced services and external arrangements the SLA will tend to form part of a contract for services covering the whole commercial deal. Examples of such SLAs are shown in Figures 1 and 2.

### 6.2 Internal SLAs

As stated earlier the preparation of internal SLAs can be an involved and expensive process consisting of the steps shown in Figure 3. The considerations listed in Step 4 in this figure relating to specifications apply to both outsourced and internally provided services and indicate some matters to which special attention should be given when negotiating outsourced SLAs. The specification can also be the basis of tender documentation sent to potential outsourcers.

**Figure 3 - Main steps in the preparation of an internal SLA**



### **1) Obtain top management approval**

Top management approval should be given at a high level if it can be shown that the advantages and benefits accruing from SLAs outweigh the disadvantages and costs. There can be problems if individual customers within a business have certain expectations, but the corporate business has (for good reasons) signed up to something different. This can be an internal communications issue.

### **2) Establish the project team**

By definition, an SLA has to be negotiated by the customer and service provider together. The project team should therefore comprise representatives of both parties together with appropriate experts, for example, computer and legal services and procurement. It is preferable for the team to be led by a neutral member of senior management.

### 3) Identify services to which SLAs are to apply

It is advisable to introduce SLAs slowly and pilot one area of service or activity at a time. The service selected should have a high profile and be one that serves the whole organisation, such as computer or legal services or training. It should also have a high existing reputation for efficiency since it is unlikely that a service provider without such a reputation would be able to meet the agreed levels and the credibility of any SLA would therefore be adversely affected.

### 4) Preparation of a draft SLA specification

The preparation of the specification is the first aspect of SLAs which is likely to add value since it compels internal customers to determine what services they really need and how they can carry out their own functions more effectively and efficiently if their expectations are met. It also gives opportunities to both parties to make suggestions for service improvements.

The main aspects to consider when drafting SLA specifications can be classified under the following headings: (a) services and service levels; (b) monitoring; (c) charging; (d) duration and termination; and (e) miscellaneous.

#### a) Services and service levels

- A detailed preliminary description of the service(s) and level(s) of service expected by the customer.
- Levels of quality, reliability, consistency and so on, required.
- Expected frequency and timing of service.
- Peak period service.
- Emergency response times for faults, call-outs and maintenance.
- Services, facilities and other assistance to be given by the customer to the provider.

#### b) Monitoring

- Determination of performance criteria and levels.
- Determining appropriate performance indicators.
- Monitoring procedures, including frequency of reviews.
- Procedure for the notification of dissatisfaction with service and service levels.
- Procedures for correcting any failure to meet the agreed service levels.
- Procedure for the resolution of disputes.

#### c) Charging

- See (5) below.

#### d) Duration and termination

- Initial duration of the SLA.
- Arrangements for renewal.
- Termination.
- Termination before the agreed date.

### e) Miscellaneous

- Security.
- Staff training.
- Incentives.
- Insurance liability.
- Subcontracting by the provider.
- Health and safety requirements.
- Holiday coverage.

### 5) Determination of the basis of charging by internal providers

Charges or transfer prices made by internal service providers should:

- be seen to be consistent and certain
- be understood by customers and open to negotiation
- where possible, offer the customer a choice of options
- be easy to invoice
- be capable of comparison with charges made by external providers and costs for similar services in other organisations.

In addition attention should be given to:

- service credits, such as sums owed to the customer by the provider for non-performance or failure to meet agreed service levels
- extra charges for additional services or higher service level requirements
- variation of charges
- statutory sales taxes, for example, VAT
- agreed extras, for example, travelling costs, waiting time, and so on
- agreed basis of increases to cover additional costs, for example, overtime, inflation, and so on.

Agreement on transfer prices is essential to enable the service provider to measure or budget anticipated income and customer's anticipated costs. Such prices can only be determined on the basis of the sharing of accurate information between providers and customers.

Transfer prices will be those appropriate to the normal practice of the service provider, for example, rate per mile for transport according to the class of vehicle, actual time multiplied by an appropriate hourly rate or a professional fee for legal services. Transfer prices take four main forms:

- (a) **Negotiated transfer prices:** where there are no precedents or existing bases for determining the transfer price or where the services required are non-standard. An element of negotiation will, of course, enter into all transfer pricing.
- (b) **Cost-based transfer prices:** the actual or standard costs of providing the required service(s) at the required level. This is probably the most usual method of transfer pricing. The advantages and disadvantages of cost-based prices are listed in Table 3.

Table 3

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Easy to integrate with cost centre control systems.</li> <li>• Create awareness of service costs.</li> <li>• Can be charged to customers on a cost plus basis.</li> <li>• Cost rates can be based on units that customers actually consume or influence, for example cost per transaction, page, journey or standard cost per development hour.</li> </ul>	<ul style="list-style-type: none"> <li>• Provider inefficiencies can be passed on to users.</li> <li>• Can be compared with dissimilar external rates based on marginal or discounted costs. Cost comparisons are therefore difficult.</li> <li>• Disagreement may arise over what should be included in costs, such as overhead rates.</li> </ul>

- (c) **Market-based transfer prices:** those that service providers would charge or expect to charge to an external customer. When a service is provided for a large number of internal customers, for example, computer services, a subscription rate may be charged; the rate varies according to the expected usage and complexity of service. The advantages and disadvantages of market-based prices are set out in Table 4.

Table 4

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Easy to integrate with cost centre control systems.</li> <li>• Facilitate comparison with external providers.</li> <li>• Avoid the need to define or negotiate what is included in costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Service needs are often unique, unclear and not really price sensitive.</li> <li>• In practice, comparisons are difficult to make due to variables in what services external providers actually supply.</li> <li>• Market prices may encourage customers to buy and providers to sell externally when this may not be in the strategic interest of the organisation. It can also lead to under-utilisation of internal resources.</li> </ul>

- (d) **Dual transfer prices:** those where customers are charged at standard cost but the provider is credited with standard cost plus or minus agreed variances plus a standard profit margin. The advantages and disadvantages of dual transfer prices are set out in Table 5.

Table 5

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Easy to integrate with cost centre control systems.</li> <li>• Can assist customer-provider partnerships.</li> <li>• Motivate both providers and customers.</li> </ul>	<ul style="list-style-type: none"> <li>• Can be seen as artificial accounting.</li> <li>• Are costly and complex to apply.</li> </ul>

One other approach is of course one in which no transfer pricing takes place. This has the advantage of avoiding conflicts between customers and providers. The disadvantages are that it does not encourage cost consciousness and often leads to irresponsible use of internal services and unreasonable demands by internal customers.

### 6) Finalise and adopt the SLA

This step involves the preparation of the SLA, together with such supporting documentation as:

- cost or transfer price schedules;
- customer responsibilities.

A proforma of an SLA is shown in Figure 4.

### 7) Designate SLA managers

SLA managers are named persons designated by the customer and the provider who are responsible for the day-to-day management of the SLA and through whom all matters relating to implementation should be channelled.

### 8) Implement and manage the SLA

This final step involves both staff training and establishing review meetings. Staff training should emphasise the need to identify and communicate errors and how SLAs can help in the achievement of better service quality. Review meetings between internal and external service providers should be held at regular intervals to discuss how the SLA is working and what improvements might be made.

## 7. SLA format

The most useful advice relating to the format of SLAs is summarised by the acronym KISS (Keep It Short and Simple). As indicated above, the actual agreement is separate from the specification. The latter and other documentation should be mentioned in and attached to the SLA.

SLAs will vary according to whether the service is externally or internally provided. Outsourced SLAs are often in a standard format furnished by the external provider. Such SLAs should, generally, be subjected to close scrutiny since they tend to favour the provider. Neither should customers sign incomplete SLA contracts. In respect of Information Systems Outsourcing, Lacity and Hirschheim [7] point out that:

*‘During negotiations, the vendor uses a host of their technical and legal experts to represent their interests. These experts thoroughly understand the way to measure information services and how to protect their interests. In order to counterbalance the vendor’s power, customers should have experts to protect their interests... Two types of outsourcing experts are recommended – a technical expert and a legal expert.’*



Although such experts are expensive they help to prevent excessive charges and conditions.

Typical formats for SLAs are shown in Appendix A, Appendix B and Appendix C.

## 8. Monitoring

Monitoring procedures will be agreed before the SLA is signed. Such monitoring involves the preparation of service reports by the provider, verification by the customer and joint review meetings.

### 8.1 Service level reports

Service level reports should be furnished at agreed intervals. Lacity and Hirschheim[8] recommend that

such service reports should:

- document the agreed-upon service level;
- state the service performance for the current time period;
- indicate exception reporting for missed measures;
- provide a trend analysis of the performance from previous periods.

### 8.2 Verification

Verification of a provider's service level report is the responsibility of the customer's SLA manager.

### 8.3 Service review meetings

Service review meetings should be held frequently during the early days of an SLA but will eventually settle down to a regular fixed meeting schedule. As shown in Figures 5 and 6, particular aspects of key performance indicators may be monitored at varying intervals. Such meetings should conform to a set agenda and the proceedings should be properly minuted and circulated. A typical agenda is shown in Figure 7.

**Figure 5 – Frequency of review of key performance indicators (catering)**

Performance against budget	Monthly
Cost and selling prices reviewed	Monthly
Verbal comments from users	Weekly
Formal feedback through customer comments cards	Monthly
User satisfaction survey	Annually
QA audit	Quarterly
Training course evaluation	Quarterly
Training review	Annually

**Figure 6 – Frequency of review of key performance indicators (cleaning)**

Performance against budget	Monthly
External benchmarking	Annually
User satisfaction survey	Annually
Help desk report	Monthly
Sample QA audits	Quarterly
>5% of activities not completed and/or service standard not met = fail	Random check
Audit to check 100% compliance with all legislation	Quarterly

### 9. Reasons for SLA failure

The reasons for SLA failure include:

- lack of commitment by customers and service providers
- an inadequate support structure, for example, failure to implement the SLA concept through a project team, appoint an SLA manager and hold regular service level review meetings
- additions to workloads, for example, SLAs require an additional reporting system and, internally, transfer pricing. Attention should be given to compensating for such extra work by relieving staff concerned of some existing duties
- SLAs are too detailed
- SLAs are not detailed enough
- inadequate staff training relating to the purpose, advantages and implementation of SLAs.

**Figure 7 - Agenda for Service Level Review Meeting**

i.	Apologies for absence*
ii.	Minutes of previous meeting
iii.	Matters arising
iv.	Review of criteria and target performance for the current SLA
v.	Observations on Service Level Reports for the current period
vi.	Provider representative(s)
vii.	Customer representative(s)
viii.	Consideration of any problems and their impact on the customer
ix.	Negotiation of corrective action plans
x.	How can the existing SLA specifications be improved?
xi.	Any other business

\*Note: Absence should be strongly discouraged.

### References

1. Institute of Management Checklist 007, Implementing a Service Level Agreement.
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6. Rothery, B. and Robinson. J., The Truth About Outsourcing (Gower, 1995), ch. 5, p. 66.
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8. Lacity and Hirschheim, Information Outsourcing Systems, ch. 7, p. 251.

## Appendices

### Appendix A - A format suitable for an internal Service Level Agreement

#### SERVICE LEVEL AGREEMENT

This Service Level Agreement (SLA) is between ..... (internal provider) hereinafter referred to as 'the provider' and ..... hereinafter referred to as 'the customer' for ..... services from ..... to ..... (specify the time for which services are to be initially provided).

#### SERVICES TO BE PROVIDED

These are as stated and described in the attached specification.

#### TRANSFER PRICES

The following rates will be charged by the provider to the customer

£ ..... per ..... (plus VAT if applicable)

£ ..... per ..... (plus VAT if applicable)

£ ..... per ..... (plus VAT if applicable)

These rates will be increased by £ ..... per ..... for any additional services not included in the attached specification.

To provide for inflation the rates may be increased on each ..... in accordance with the ..... Index.

#### FACILITIES

The following information or documents will be made available by the customer to the provider at or before the times indicated and the places stated. The customer will also give the provider all other reasonable facilities required.

.....

#### CONTACT POINT FOR QUERIES

Provider ..... Phone .....

Email ..... Fax .....

Customer ..... Phone .....

Email ..... Fax .....

### PAYMENT

The provider will invoice the Finance Director within ..... days of the end of each ..... and will, at the same time, send a copy invoice to the customer. The Finance Director will then charge the budget of the customer within ..... days unless, in the interim, notice in writing has been given by the customer of an outstanding query by the customer to both the provider and the Director of Finance.

### SERVICE CREDITS

Charges will be reduced by £ .....for each occasion on which ..... and by £ .....for .....

### DISPUTES

Disputes that cannot be resolved by the parties will be referred to ..... for settlement.

SIGNED ..... for the provider

(Name, position and date)

SIGNED ..... for the customer

(Name, position and date)

## Appendix B - A model Service Level Agreement

Your company name

### Service Level Agreement (SLA)

BETWEEN

Contracting and Procurement (CP) and ENGINEERING DEPT (EDPT)

Insert date

Service Provider: CP

Customer: EDPT

### PURPOSE

The purpose of this Service Level Agreement (SLA) is to outline the services provided by the **Contracting and Procurement Department (CP)** and the specific performance targets that must be attained to support the business needs of the **Engineering Dept (EDPT)**. This particular agreement also outlines the relationship required between **CP** and the Line department in order to attain high levels of service delivery.

### ROLES and RESPONSIBILITIES

**EDPT** and **CP**, in support of our Customer's business, want to achieve high performing Value Added Contracting and Procurement Services to the Business. The roles of **EDPT** and **CP** must be discharged effectively to facilitate an enabling environment for delivery of these agreed services to the line.

Contract Holders/Sponsors have prime responsibility for their contract portfolio; effective contract management will benefit them, as well as meeting corporate obligations. The two principal components of contract management are:

**Business Controls Framework** within which all commercial activity shall be conducted.

CP is the process owner for the company's indigenous contracting policy and requires the support and co-operation of all contract holders/sponsors to effectively implement this Policy, including the feedback features on indigenous Contracting performance included in the Policy. The Indigenous Contracting Policy is part of the Commercial Management Governing Policy.

The foundation of any commercial controls framework is a comprehensive Contracting Policies and Procedures Manual (CPPM), which is updated on a regular basis to reflect policy and organisational changes. In addition to describing the contracting process, the manual sets out the roles and responsibilities of CP and other parties involved in the administration of the contracting process.

**Contracting and Procurement Services** While the Line contract holders have overall responsibility for the management of their contracts, CP is responsible for providing pre and post award commercial support services to EDPT. The objective is to empower and enable Line contract holders to effectively manage their contracts. The full range of services available from CP is set out in the Contracting and Procurement Management Systems Manual, available on the company intranet.

In addition to the foregoing, CP provides the following generic services to all EDPT line departments:

Contract Planning	Contract Document Preparation
Commercial Advice	Commercial Evaluation of Tenders
Claims Analysis and Reporting	JV Expediting
Process and Information Management Systems	Compliance Monitoring
Contract Strategy Development	SCA/ Spend Analysis
Market Intelligence	Contract Performance Monitoring
Contract Close Out	Contract Reviews

For full detail on CP and Customer roles and responsibilities refer to the CPPM.

### KEY PERFORMANCE INDICATORS (KPI's)

As a means of ensuring quality of the services provided by CP to EDPT, the following KPI's shall be used to monitor the work done. In order for CP to achieve the set Targets, EDPT is expected to meet a set of KPIs also set out below.



Table of KPI's

INDICATORS	MEASURE (CP Dept)	TARGET	MEASURE (EDPT)	TARGET
Procurement	Availability of materials and equipment based on agreed ROS dates (%)	97%	On time submission of material requisitions to enable CP to meet target	7 mths before ROS date
% Rush Requests	Number of requests which do not allow for agreed service lead times (expressed as a percentage of total requests)	<5%	Keep No. of Rush Orders below agreed target	< 5%
e-Procurement	Savings from 'OLB' as a percentage of spend (%)	10%	OLB missed opportunities (%)	0%
Stock	Achieve reduction in inventory level (12/02 inventory level as base) (%)	10%	Jointly review Moribund Stock Listing and approve write-offs not later than 3 mths after review.	< 3 mths
	Critical Spares availability (%)	93%	On time submission of requirements plan & budget delegation	4 months before ROS date
Customer Satisfaction	Customer Satisfaction levels	>70%	Joint review and sign off of SLAs	Quarterly
Development of 3 year Contract Plan	Contract Plan shall be updated, and agreed with Line department at the end of each quarter	100%	On time input by Customer into the development of Contract strategies	Monthly
Completion of tender process and award of contract	Number of incidents where authority & CP approval has been obtained prior to execution of the work	100%	On time registration of detailed workscope by Customers	8 weeks before contract placement for Minor contracts
	Number of incidents where work has commenced with no signed contract (or interim agreement) in place 1	0%	On time registration of detailed workscope by Customers	8 weeks before contract placement (for emergency cases, Online approval of relevant contract panels must be obtained prior to work commencement and 2 WEEKS before contract placement)
	Following approval by all parties time taken for contract document or interim agreement ready for signature	7 days	Prompt review & sign off of contract documents	Sponsor should review within 2 days

INDICATORS	MEASURE (CP Dept)	TARGET	MEASURE (EDPT)	TARGET
Contract close out	Expired contracts closed out after completion of performance evaluation via CMS and relevant approvals for close out received	< 6months	On time close out of issues by Customer	< 6 months
Strategy reviews for all major contracts	Number of strategies for major contracts (greater than \$500k) not reviewed yearly and updated in the contract plan during the year	0	On time input by Customer into the development & review of Contract strategies	Quarterly
	Review Tender Board Submissions to ensure fit for purpose	100%		
Value for money contracting	Number of new contracts benchmarked with other Divisions/regional OU's	100%	On time input by Customer into the development of Contract strategies	
	Number of new contracts with incentive schemes	To be set		
	Number of new integrated contracts	To be set		
	VFM Savings as a percentage of spend (%)	10%		
Business Control	Compliance monitoring plan to be produced by CP and agreed with the line	Completed Yes/No	Strict compliance with contract execution plan	
	Participate in VAR 4 Reviews and Compliance Audit on Major Projects	As agreed		
On time service delivery from receipt of approved Job Request	For contracts <\$100k (Minor contracts) 2	<8 wks	On time registration of detailed workscope in CMS to enable CP to achieve process time	8 wks before contract placement 7 days upon approval from relevant contract panels
	For contracts >\$100k	Contract delivered within agreed contract plan schedule		

INDICATORS	MEASURE (CP Dept)	TARGET	MEASURE (EDPT)	TARGET
	For claims on submission from contractor2	< 45 days		Registration of claim with appropriate contract panels within 7 days upon receipt from Vendor and immediate clarification on issues raised by Legal unit (if any) and so on
	For variations	< 30 working days		
Overhaul Plans	On time provision of major overhaul spares	100%	Provision of list of spares required backed up with budget cover	6 months before overhaul are carried out.

To enable CP deliver to the required set target, Customer must do the following:

- timely identify contracting requirements
- invite CP staff to planning/budget meetings
- timely communication of changes
- detailed work scope and product specifications (minimum and alternatives)
- technical peer reviews of work scope/specifications
- participate in periodic stock reviews
- participate in the annual contract performance reviews and contract close out
- technical input to local content development staircases/strategies, and so on.

### THE AGREEMENT:

I hereby signify agreement with the terms of this Customer Service Level Agreement (Customer SLA)

CP :

EDPT

Signature:

Signature:

Name:

Name:

Ref. Ind.:

Ref. Ind.:

Date:

Date:

### Appendix C: Model service level agreement suitable for use in a Local Government Council

#### SERVICE LEVEL AGREEMENT

##### SERVICE LEVEL AGREEMENT FOR THE CORPORATE PROCUREMENT SERVICE

#### 1 The parties

This service level agreement is between the **X Department** (the 'client') and the **Corporate Procurement Service (CPS)** of the Department of the Chief Executive (the 'service provider').

#### 2 Effective dates

This service level agreement is effective from '**date**' to '**date**'.

It will be reviewed no later than '**date**'.

#### 3 Coverage

The service will be provided to all departments in all locations within the geographical boundaries of the '**specify the name of the council**'.

#### 4 Services to be provided

- A mechanism for governing and approving category management for procurement for the council.
- A method of simplifying and standardising Procurement and Payments processes.
- Standardisation of Benefit Realisation methodology into a common agreed approach of measurement and reporting.
- Development and Management of Category Strategies for procurement activity within Category A, B, C and C1 McClelland definitions.
- Strategic procurement for every £ of non-labour spend
- Strategic sourcing
- Pre-market intelligence
- Directing joint virtual matrix teams in making procurement decisions.
- Category strategies for every Proclass 3 category
- Carrying out accountable, competitive and open tendering procedures in accordance with the spirit of the EU Treaty.
- Low value contract advertising in the National web portal.
- Interpretation and adoption of European Procurement Legislation.
- Jointly preparing Tender evaluation criteria in VMTs.

- Carrying out Post-tender clarifications.
- De-briefing unsuccessful suppliers.
- Downstream Supplier relationship management strategies within VMTs
- Providing a benefits tracking tool for hard benefits and measuring and reporting on same.
- Creating and managing KPIs and KPIs relating to the procurement service.
- Assisting in business process re-engineering to maximise procurement savings and quality of service.
- Managing and ensuring compliance with the Proactis e-procurement system.
- Producing and managing a CSR strategy which accords with corporate objectives. This includes equalities, sustainability, the environment, health and safety, ethical procurement, Sarbanes-Oxley, prompt payment, support for local SMEs.
- Creating category-based user intelligence groups to gather feedback from customers and stakeholders.
- Managing the service within the resources and budgets allocated.
- Procuring on the basis of most economically advantageous procurement including whole-life costs.
- Creating a communications strategy that will keep all customers and stakeholders suitably informed at all times.

### 5 Service availability

CPS Staff will provide the service from Monday to Friday, from 08:30 to 17:00 hrs throughout the year, with the exception of Council public holidays.

### 6 Duties and Responsibilities of both parties

- Commit to contributing to the governance arrangements.
- Commit to contributing to the development of each Category Management Strategy and attending the relevant category management meetings on a regular basis.
- Commit to a single approach to benefit realisation and the reporting requirements of the procurement service.
- Provide appropriate levels of data to assist in creating category strategies.
- Commit to achieving high quality Source-to-Pay processes within the departments and the organisation.
- Continually develop and improve the efficiency of working arrangements within the Procurement Service and the client's own resource base.
- Strive to exceed The Procurement Service's Standards.
- Commit to an annual review of the partnership and performance measures covered in this agreement.
- Provision of resource to assist in category strategy design and delivery of agreed procurement projects.

### 7 Performance measurement

The following are the key performance indicators that will be used to measure performance within the service level agreement:

Key performance indicators:

Measure Type	Measure Definition	Method	Frequency
KPI	1. Total Savings Achieved Year on Year	Benefits tracking model	Quarterly
KPI	2. Customer Satisfaction Survey	On-line surveys	Annual

KPI	3. Supplier Satisfaction Survey	On-line surveys with top 50 by spend suppliers	Annual
KPI	4. % procurement spend that is channelled through a collaborative contract	<a href="#">Insert details</a>	Quarterly
KPI	5(a) & 5(b) Spend with contracted suppliers (on contract)	<a href="#">Insert details</a>	Quarterly
KPI	6. % of KPIs that show improvement since previous report	Manual calculation	Quarterly
KPI	7(a) % of procurement officers who hold the professional procurement qualification, Member of Chartered Institute of Purchasing and Supply (MCIPS)	Manual calculation	Quarterly
KPI	7(b) % of procurement officers with an appropriate procurement qualification	Manual calculation	Quarterly
KPI	7(c) % of procurement spend actively influenced by a procurement professionals	Financial Information System (FIS)	Quarterly
KPI	8. % procurement staff undertaking formal training	Manual calculation	Quarterly
KPI	9. E-procurement spend penetration	<a href="#">Various Reports</a>	Monthly
FI	1. Average Process Cost	FIS	Six-monthly
FI	2. Total Cost of Resources in Procurement Dept	FIS revenue budget	Quarterly
FI	3. Number of Procurement Staff	Manual calculation	Quarterly
FI	4. Procurement Department Spend per professionally qualified staff	Manual calculation	Quarterly
FI	5. Procurement Department Cost per £ of spend	FIS and FIS revenue budget	Quarterly
FI	6. Average Spend per contracted supplier	<a href="#">Insert details</a>	Quarterly
FI	7. Average Invoice Value	e-proc IT system	Quarterly
FI	8. % Private Sector suppliers with a formal contract agreement	Manual calculation	Annual
FI	9. % Third Sector suppliers with a formal contract agreement	Manual calculation	Annual
FI	10. % spend with SMEs	<a href="#">Insert details</a>	Six-monthly

KPI is key performance indicator  
FI is Financial indicator

### 8 Performance review

Strategic Review Meetings between the client and the service provider will be held every six months to review the service.

Performance will be monitored by the client as follows:

- monthly operational meetings.

Performance will be monitored by the service provider as follows:

- monthly operational meetings. Reportage.

### 9 Varying the contract

Contract variations will be accommodated wherever possible. These can be initiated by either the client or the service provider and are subject to discussion, agreement, re-costing, risk assessment, change control procedures and a period of notice no shorter than two working weeks from the inception of the request for the change.

Any contract variation will be reflected in either an amendment to the service level agreement or in a separate variation order, and authorised by both parties.

### 10 Resolving issues

Any issues or complaints that arise between the client and the service provider will be handled locally with a view to achieving an amicable resolution.

Should the client continue to be dissatisfied, an approved complaints procedure should be followed.

Where issues cannot be settled satisfactorily, in an agreed timeframe, they can be referred to the Support Services Review Board for further consideration and, as appropriate, resolution.

### 11 Fees

The Annual Fee is a contribution to the costs of running the procurement service which is borne by all departments and is based on the projections of spend under the management of the procurement service. Payments are recharged annually, at the end of each financial year. The final figure may be adjusted at the end of each financial year to meet any variances reflecting over or underspends. The Fee will be reviewed on an annual basis.

Where any additional services are required by, or result from, the actions of, customers, and extra costs are incurred by the procurement service, the customer will be required to reimburse the procurement service for the costs involved. Where appropriate, an estimate of these costs will be provided and customer agreement obtained before proceeding to instruct the service provider.



**12 Agreement and signatures**

**Agreed and signed on behalf of: .....**  
**(the Customer)**

**Signature.....**

**Name (printed).....**

**Position.....**

**Dated .....**

**Agreed and signed on behalf of: The Procurement Service**

**Signature .....**

**Name (printed).....**

**Position .....**

**Dated .....**









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