RESOURCE DOCUMENT: ANNEXURE A
to Guidance Note 5

M1 Service Compact guideline

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Prepared by National Treasury's Cities Support Programme

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Definitions

A3: PIAP	Performance Improvement Action Plan. The institutional, financial, operational and service delivery KPIs with targets defined, clarified and agreed, and approved by Council. See Guidance Note 4.
Ancillary services	Non-core services refer to services typically contracted on an ad hoc basis, either from the Service Authority, another service provider or a private company. These include services such as legal services.
Core services	Core services are defined as the technical, commercial and supporting aspects of providing the service which include asset creation, asset maintenance and operations, finance, human resources, supply chain management, customer and commercial services (including revenue management), fleet management and IT. (Guidance Note 3)
Material and serious breach	A breach is considered material and serious breach if it significantly impacts the ability to provide basic services necessary for public health, safety, or environmental protection, or results in depriving citizens of basic services for extended periods, and is the result of intentional violations, negligence, or persistent failure to address known problems. Examples for water supply include actions or omissions that results in the failure to provide potable water for extended periods or in supplying contaminated water that poses health risks.
Service Authority	A municipality that has the constitutional and legislative responsibility to ensure that the respective trading services are provided within the law. The metropolitan municipalities are service authorities with respect to electricity, water services, solid waste management, as defined in relevant legislation.
Service compact	Defines the relationship between the Service Authority and the Service Provider, with clearly defined division of responsibilities across value chains for service authority to service provider with clear performance and accounting metrics, including the financial relationship between the two. See Guidance Note 4.
Service level agreement	Service level agreements define the terms and conditions of providing services by the municipality on behalf of the trading service, (and vice versa but excluding those services defined in Section 4 of this document). The Service Compact is not a service level agreement. Service level agreements will generally apply to ancillary services such as legal services.
Service Provider	For the purposes of this document, a service provider refers to the business unit or municipal entity undertaking the service (water and sanitation, electricity, solid waste), with delegated executive management authority (SPoMA). *(Note: A service provider can also be a private company)*
SPoMA (Single point of management accountability)	The appointment of a Head of the Business Unit (in the case of a Business Unit arrangement) or CEO/MD (in the case of a municipal entity) of the trading service with an appropriate job description, reflecting all delegated powers and responsibilities, and an appropriate performance contract (Guidance Note 4). The Head/CEO/MD must have executive authority and management control of all core services for the effective operation of the Trading Services Business as a SPoMA.
SPoMA Delegations	Minimum Commitment 4 ensuring that the responsibilities and functions pertaining to/or supporting operational, financial management and overall management of the Trading Service are delegated and fully accounted for within that Trading Service SPoMA, as per Guidance Note 4.

Support functions	Support functions refer to functions such as finance, human resources and supply chain management. These are defined as part of the core services necessary to provide a trading service.
Tariffs	Tariffs refer to all forms of service-related sources of revenue including connection charges and developer contributions.

1 Purpose and context

This document defines the minimum content of what must be included in a Service Compact between the service authority and service provider in fulfilment of the Minimum Commitment M1 which forms part of the Performance Improv ement Action Plan (A3: PIAP) to be approved by Council and to form the basis for access to the Metro Trading Services Reform performance-based incentive grant.

The document also provides guidance on the content of the Service Compact.

This document is an Annexure to **Guidance Note 5: Implementation of Minimum Commitments** which describes and defines all the Minimum Commitments and the relationships among them.

2 Minimum Content Requirements and Guidance

The **Service Compact** must include at least the content that is presented in the 11 sections below. Guidance on the nature of the content to be included is also described herein.

Section 1: Purpose and objective

Purpose of service compact: Must state that the purpose of the compact is to define the relationship between the Service Authority and the Service Provider. Specifically, it must include and stipulate the respective duties and obligations of each party with respect to each other, including minimum requirements and performance expectations and targets.

The Municipal Systems Act, Act 32 of 2000, Section 4 (2) requires the council of a municipality, within the municipality's financial and administrative capacity and having regard to practical considerations, to strive to ensure that municipal services are provided to the local community in a financially sustainable manner.

Overall objective: Must state that the overall objective of the service compact is to support the development of a financially sustainable trading service that has the following characteristics:

- operates as an effective business;
- meets legislative requirements;
- achieves the performance targets set out in the A3: PIAP; and
- moves towards (and ultimately achieves) the ability to access loan finance, including commercial finance.

Note: The last point is an essential goal of the reforms. Use of own revenues and access to commercial finance is necessary to supplement the limited grant finance that is available to support these trading services.

Section 2: Scope of service provided

This section must define the scope of services to be provided to customers.

See examples of Scope of Services for:

- Water and Sanitation (**Annex 1w**)
- Energy and Electricity (**Annex 1e**)

Section 3: Customer service standards

This section must specify the customer service standards. These should cover service quality standards, safety, customer service response times and related matters, including compliance with relevant legislation, industry related specifications and license requirements.

The Service Compact must reference Section 95 of the Municipal Systems Act, Act 32 of 2000 (Customer care and management) and be consistent with the City's approved policies.

The specification must be clear when the standard is a legislative requirement and when the standard is a target set by the Service Authority.

Water and Sanitation must reference the Revised Compulsory National Water and Sanitation Services Standards in terms of Section 9(1) of the Water Services Act No 108 of 1997 (Government Gazette 52814: 6 June 2025).

Electricity services must reference the OHS Act (Act 85 of 1993), Electricity Regulations Act, 2006 (Act No. 4 of 2006), licence conditions and the relevant associated standards, particularly NRS 047 and NRS 048, SANS 474 and the applicable Distribution Grid Codes.

See examples of Customer Service Standards for:

- Water and Sanitation services (**Annex 2w**)
- Electricity services in (**Annex 2e**)

Section 4: Functional scope and delegations

Section 4.1 Summary description of functional scope

This section must specify the scope of functions over which the business unit has executive management (decision-making) authority. This needs to include all functions integral to the success of the business (that is, core services as defined in the definitions, including all services integral to the effective performance of the service).

A brief description of the functions to be undertaken under the executive management authority of the SPoMA must be included in the service compact.

As per Guidance Note 3, and aligned with the seven-box model, the functional scope of the business unit must include the technical, commercial and support functions of providing the service:

- Asset creation,
- Asset maintenance and operations,
- Finance,
- Human resources,
- Supply chain management,
- Commercial and customer services (including revenue management),
- Fleet management, and
- Information technology and operational technology.

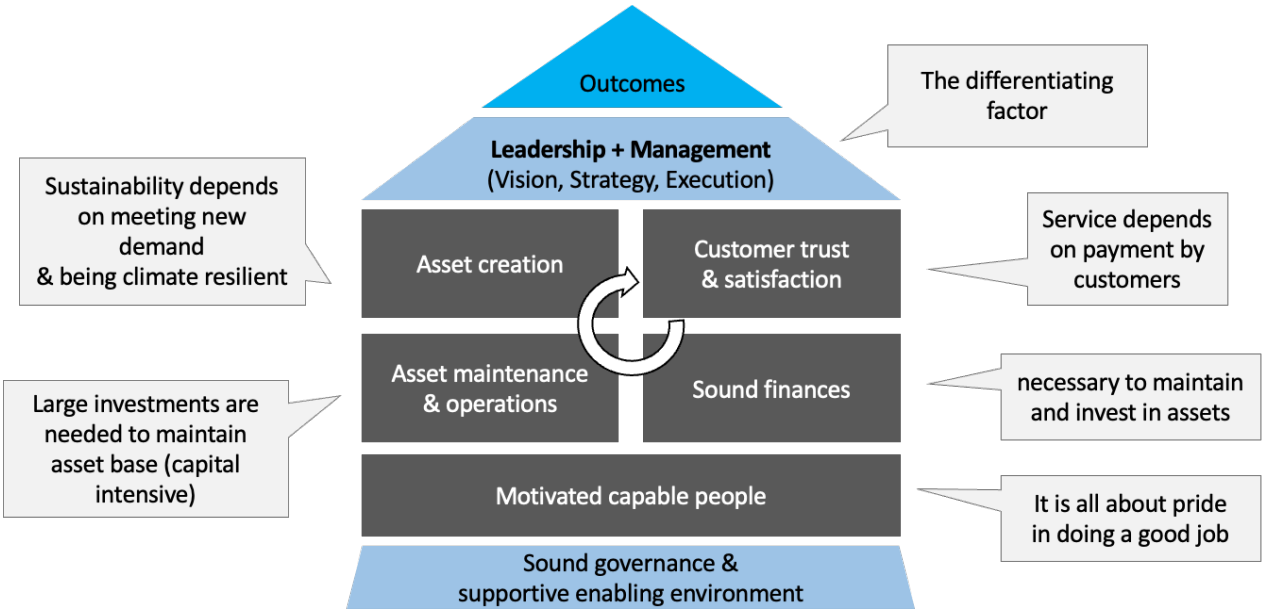

Figure 1 Seven-box model for effective management of a trading service

Section 4.2 Formal Delegations

The description of functions depicted above, where the SPoMA has management decision-making authority, must be supported by formal delegations that are consistent with these functions.

Formal delegations are required in Minimum Commitment 4 (M4: SPoMA Delegations). These are to ensure that the responsibilities and functions pertaining to/or supporting operational, financial management and overall management of the Trading Service are delegated and fully accounted for within that Trading Service SPoMA, as per Guidance Note 4.

The formal delegations are not the same as the service compact. The delegations define responsibilities and accountabilities of individuals within the service authority and service provider. The service compact defines the relationship between the service authority and the service provider.

The formal delegations must be referenced in the service compact.

Section 4.3 Summary delegations document

The formal delegations (M4: SPoMA Delegations) must be captured in a summary document that is included as an annex to the Service Compact (Annex 3).

Section 5: Service level agreements

Service level agreements define the terms and conditions of providing services by the municipality on behalf of the trading service, (and vice versa but excluding those services defined in Section 4).

Service level agreements will typically apply to **ancillary** services such as legal services.

Where **core services** (see definitions) are provided by the metro on behalf of the trading service, this must be in terms of a transitional arrangement with a service level agreement which includes

specifying an end date for moving the core service to the full management authority and control of the trading service single point of accountability.

Service level agreement must distinguish between **core** and **ancillary services**.

All service level agreements must include the following:

- A clear definition of the service provided;
- The minimum and target standards of the service to be provided, and any related conditions and obligations;
- The cost of the service provided (or the basis for how the cost is to be calculated);
- Enforceable remedies in case of non-performance; and
- The option of termination of the service level agreement in cases of material and serious breach of the service level agreement and a failure to remedy such a breach.

The service compact must include, or refer to, service level agreements in all cases where **core** or **ancillary services** are provided by the owner (or other external parties). These must be compliant with the principles and approach set out above.

In the case of electricity, the provision of street lighting (and any other services that are not part of the operating licence) must be separately accounted for.

A template for service level agreements is provided in **Annex 4**.

Section 6: Asset due diligence

The Service Compact must include a requirement that the service provider exercise due diligence with respect to the maintenance and upkeep of infrastructure and all related assets necessary for the effective provision of the service. This should include a reference to best practice asset management principles and practices relevant to the respective trading service including the management of fleet, mechanical and electricity assets etc. In addition, this should amongst others, incorporate full life-cycle asset management and timely refurbishment with a view to efficient, effective, and sustainable use of assets.

The Service Compact should refer to the ISO 55001 compliant City Infrastructure Delivery Management System (CIDMS) developed by the National Treasury's Cities Support Programme, and other best practices as relevant and appropriate, for example, the International Infrastructure Management Manual (IIMM), 6th Edition.

Where the current practice is far from best practices, the Service Compact should provide for an appropriate timebound pathway towards achieving best practice.

Section 7: Business plan and financial model

The Service Compact must require that the Service Provider develops and implements a practical business plan that complies with Guidance Note 5 Annexure 2: M5 Business and Investment Plan: minimum content template.

The business plan must:

- Provide a practical plan to turnaround the financial, technical and operational performance of the business and improve service outcomes;
- Be anchored to a realistic financial model;
- Advance best practice utility management practices and benchmarks;
- Address changing market conditions as relevant; and
- Set out how the management of the service will achieve the performance targets set out in the A3: PIAP while complying with legislative requirements, license conditions, minimum standards and other obligations defined in the service compact.

Best practices are provided in Guidance Note 5 Annexure 3: M5 Business and Investment Plan: best practice guideline.

Section 8: Performance agreements

The Service Compact must state that the Service Authority is responsible to:

- Fulfil the duties and obligations attributed to the Service Authority in the Service Compact (M1), and
- Approve, implement and maintain the minimum commitments set out in the A3: PIAP, namely:
  - SPoMA appointment (M2)
  - SPoMA Organisational Structure (M3)
  - SPoMA delegations (M4)
  - Financial Model and Business & Investment Plan (M5)
  - Budget support of Trading Service business and investment plan (approval) (M6)
  - Financial Transparency – separate AFS (M7)
  - Support for management of organisational change and increased delivery (M8)

The Service Compact must state that the appointed SPoMA (Head of the Trading Service) is responsible to:

- Fulfil the service provider duties and obligations set out in the Service Compact (M1);
- Implement the SPoMA organisational structure (M3);
- Develop and implement the business plan (M5);
- Produce annual financial statements for the trading service (M7);
- Undertake change management and increase capacity to deliver on the business plan (M8); and
- Meet the performance targets set out in the A3: PIAP.

These duties, obligations and performance targets must be included in the performance contract with the appointed SPoMA. In the latter case, the performance contract for the CEO is with the Board of the Municipal Entity.

The performance contract must include processes for taking corrective action in case of non-performance of the respective parties to the performance agreements (See also Section 14.)

Section 9: Financial relationship between authority and provider

Section 9.1: Principles and basis for determining the financial relationship

Section 4(2) of the Municipal Systems Act requires that the council strives to ensure that municipal services are provided in a financially sustainable manner.

Financially sustainable is defined in the Act as meaning "the provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources, including budgeted income, grants and subsidies for the service, is sufficient to cover the costs of — *(a)* the initial capital expenditure required for the service; (b) operating the service; and (c) maintaining, repairing and replacing the physical assets used in the provision of the service."

Within this context, the service compact must state the principles and basis for determining the financial relationship between the service authority (as business owner) and the service provider. These must address the following items:

a) **Service authority contributions:** Principles, and methods of calculation or allocation, of service authority contributions to the service. These include capital and operating grants, including the equitable share. Contributions are typically made to cover the cost of providing basic services to poor or indigent households.

b) **Payments to service authority**: Principles, and methods of calculation, of any payments from the service provider to the service authority based on the financial performance of the service provider and/or its use of the service authorities' assets. This could be in the form of a return on assets or equity; a lease fee for use of assets or a share of the net surplus generated.

c) **Inter-business charges**: Principles, and methods of calculation, of payment for any services defined in a Service Level Agreement. See Section 5 (Service Level Agreements).

d) **Financing/funding arrangements**. Principles and approach to the funding and financing of investments into the service, including how service authority contributions and grants are allocated and used. See also point (a) above.

e) **Tariffs.** Principles and approach to determining the tariff level and structuring tariffs, with direct reference to, and based on the Business Plan and Financial model. These must be consistent with relevant legislation, regulations and licencing requirement and follow existing guidelines. See MFMA Circular 98 – tariff setting methodology and any regulatory requirements that may form part of license conditions.

f) **Unfunded (and under-funded) mandates**. An approach to identifying and addressing unfunded and under-funded mandates. See point (a) above.

g) **Non-compliance.** Principles and approach to addressing instances where the financial agreement is not followed. See also Section 11.

Section 9.2: Statement of flows and balances

The service compact must require the service provider to publish an annual **statement of flows and balances** between the service authority and the service provider in compliance with M7 Financial Transparency. This statement must address all the aspects identified above. National Treasury will separately provide further guidance on the content and format of the statement of flows and balances.

Section 10: Governance

Section 10.1: Governance principles and practices

The service compact must require adherence on the part of both the Service Authority and Service Provider to the principles and practices of sound governance, including the following:

- Demonstrate ethical leadership and integrity;
- Create a culture of public service and accountability;
- Ensure separation of oversight and executive management where the oversight role is supervisory, not operational, and where effective oversight relies on structured information flows and regular performance reporting, and is not involved in hands-on management decisions and actions;
- Promote transparency through appropriate disclosures and reporting (see Section 13); and
- Implement appropriate measures to prevent corruption (See Section 12).

Governance in the case of internal business units

Where the service provider is an internal business unit, the service compact must briefly describe specific roles of the following oversight bodies with respect to the effective implementation of the service compact:

- Council;
- Trading Service Portfolio Committee;
- Finance portfolio committee; and
- Municipal Public Accounts Committees (MPAC).

With respect to MPAC, reference should be made to guideline: Municipal Public Accounts Committee: Enhancing Oversight in the Municipality. Practical Guide (SALGA, 2011)

Section 10.2: Value for money and corruption

With reference to the MTSR Programme Operations Manual, and specifically Chapters 11 and 15 of the Municipal Finance Management Act (Act 56 of 2003), and the Prevention and Combating of Corrupt Activities Act[1] (Act 12 of 2004), the Service Compact must state what specific measures will be undertaken:

- to promote ethics of officials and other role players involved in supply chain management;
- ensure transparency and value for money in the procurement of goods and services;
- combat fraud and corruption in the provision of the trading service; and
- to deal with cases of suspected fraud and corruption.

The applicable debarment policy and process must be described or referenced in the Service Compact, taking note of the additional World Bank requirements stated in the Programme Operations Manual.

The Service Company must state which parties (authority and/or provider) are responsible for undertaking and/or overseeing these measures.

[1] https://www.gov.za/sites/default/files/gcis_document/201409/a12-04.pdf

Section 10.3: Transparency and reporting requirements

The service compact must define the reporting requirements between the parties, including the publishing of an annual report for the trading service and in the case of a municipal entity all the relevant documentation such as management accounts and that as may be required by the legislative framework.

Section 11: Breach, force majeure, renewal and other matters

Section 11.1: Breach and corrective actions

The service compact must include processes for addressing any breach by either service authority or trading services business, including avenues and mechanisms of redress.

An example is provided in Annex 5.

Section 11.2: Force majeure

The service compact shall define *force majeure* and other material changes in circumstances outside the control of either party to the service compact and which has a material impact.

Example:
Definition: *Force majeure* refers to any event or circumstance beyond the reasonable control of either party, which prevents or materially impedes the performance of their obligations under the service compact. Such events may include:

- Natural disasters (such as floods, earthquakes, droughts, or fires);
- Civil unrest, war, terrorism, or acts of sabotage;
- Epidemics, pandemics, or public health emergencies;
- Industrial actions not limited to the control of the affected party;
- Power supply failures, critical infrastructure breakdowns of cyber-attacks;
- An unforeseeable change in national legislation that may impact on the total operation, structure or conditions of the market structure or
- Any other unforeseen event declared as a national or provincial disaster in terms of the Disaster Management Act, 2002 (Act No. 57 of 2002).

Notification and Mitigation: The party affected by the event will formally notify the other party and relevant stakeholders, providing full details of its nature, likely duration, potential impact on performance, and the specific service delivery obligations affected. The affected party must take all reasonable steps to mitigate the impact of the event and to resume normal operations as soon as possible. If necessary, the parties must jointly assess the situation and agree on interim measures to safeguard essential services and public interest obligations.

Suspension of Obligations: During the period of *force majeure*, the obligations of the affected party may be suspended to the extent that performance is rendered impossible or impracticable but will not relieve the affected party from its duty to act prudently and safeguard public assets.

Review and Adjustment of Commitments: If a *force majeure* event persists beyond thirty consecutive calendar days, the parties must jointly identify/review affected service compact

obligations. This may result in adjustment of performance targets, timelines, or budget allocations, the temporary re-prioritisation of programmes or invoking additional support or relief mechanisms. Any such adjustments must be appended to the Compact as a formal addendum.

Good Faith and Cooperation: Both parties commit to act in good faith during and after any *force majeure* event, ensuring that service continuity, transparency, and accountability remain central to all remedial actions and decisions taken under this clause.

Section 11.3: Duration and renewal

The duration of the service compact must be specified together with process for renewal.

The service compact shall have a duration of at least five (5) years and be reviewed and updated at such five-year intervals, or more often as deemed appropriate.

Section 11.4: Other matters

Other matters, as relevant may be included in the service compact**.**

Annex 1w: Scope of water services

(Example)
The following services are to be provided by the **service provider**:

Services provided	**Description / comment**
Services provided in formal areas	
Potable water supply to households, businesses and institutions	
Non-potable water supply to industries	
Wastewater collection services for households and businesses	
***	
Services provided in informal areas (informal settlements)	
Potable water supply	
Sanitation services to households living in informal areas (permanent and temporary)	***** describe nature of service provided**
Other services	
Bulk treated water provided to other municipalities	if municipality also acts as a bulk water services provider
Other services (specify)	

Annex 1e: Scope of electricity services

(Example)
The following services are to be provided by the **service provider**:

Service provided	**Description / comment**
Purchases of bulk (wholesale) power from (a blend of) power suppliers according to an internal resource plan (IRP) of the service provider. This may include the participation in the wholesale market.	
Retail electricity services to large customers (e.g. manufacturing and industrial) within the license supply area.	
Retail electricity sales to households and businesses in formal and informal areas, noting the exclusion below.	
excludes provision of services undertaken by *** (specify provider) in *** (specify areas).	
Energy trading services (including energy wheeling) and operating as distribution service provider (DSO) and distribution energy trader (DET) and providing network supply services (NSP).	
Sale of bulk (incl. cross boundary wheeling) electricity outside of municipal area.	
Any “behind the meter service” to complement customer service.	
Other (specify) ***	

Annex 2w: Customer service standards for water and sanitation

(Example)

Legislated minimum requirements (formal areas)

For water and sanitation, services must comply with the Revised Compulsory National Water and Sanitation Services Standards in terms of Section 9(1) of the Water Services Act No 108 of 1997. Government Gazette 52814. 6 June 2025.

Basic water supply	**Description / comment**
An obligation to provide **a basic water supply service to all households**, including on private land, where a basic service meets the definitions and standards below.	
Access: "delivery to end boundary of yard (user connection point) of the existing settlement"	To be achieved by June 2027.
Access: new applications completed within 21 days.	
At no cost to indigent households	Indigent households to be offered a free basic water service.
Quantity: minimum 6 kilolitres per household per month at a flow rate of at least 10 litres per minute.	When water services are interrupted for more than 24 hours, alternative services must provide at least 10 litres of potable water per person per day and adequate sanitation services to protect health.
Metering. All connections must be metered.	
Meters: broken/stolen meters to be replaced within 21 days.	
Meters: must be replaced within their asset lifespan	
Quality: drinking water provided is fit for human consumption as per SANS241	
Reliability: available for at least 358 days per year	
Reliability: not interrupted for longer than 48 hours	
Education: Provision of appropriate education in respect of safe, effective and efficient water use, hygiene and groundwater management**.**	*** describe what constitutes an appropriate education service

Legislated minimum requirements (informal settlements)

Access: provide interim water supply services within 90 days of becoming aware of a new informal settlement	
An interim water service is defined as:	
Access within 200m	
Quantity: same as for a basic service	See above.
Reliability: same as a basic service	See above.
Tanker service must not exceed 12 months**.**	
Where a settlement is formalised, a basic service must be provided	See above.

Customer service standards (targets and minimums)

Telephone Calls	80% responded to within 20 seconds, remaining 20% within a minute. Return calls within 1 working day. (targets)
Correspondence	Acknowledgement with 1 working day (target)
Service interruptions (area)	Notify affected parties within 2 hours of issue discovery
Formal areas	
New water connection	Respond within 2 working days (target), resolve within 21 working days (**minimum**)

Burst water main (Leaks/bursts)	First response within 6 hours (to assess and make safe) (target), resolved in 2 working days (target), with 7 days (**minimum**)
Sewer blockage/overflow	Respond within 1 working day (target), Resolve within 3 working days (target)
Water pollution incidents	First response on notification, Source containment within 2 working days, Resolved within 28 working days
Other technical Queries (meter issues, low pressure,)	Respond within 2 working days for most technical requests (target). Resolve leaks within 7 working days (**minimum**)
Account queries	Acknowledged within 1 working day (target) resolved within 28 working days (**minimum**)
Informal areas	
Toilet complaints	Respond and clean within 1 working day
Other incident reports	Respond within 1 working days (target), resolve within 14 working days (**minimum**)

Annex 2e: Customer service standards for electricity

(Example)

Legislated minimum requirements:

For electricity, services must comply with norms and standards defined in the Electricity Regulation Act and related regulations, in particular:

Distribution Network code vs 6.2(August 2022) and other relevant distribution related grid codes

NRS 047 Electricity supply – Quality of service

NRS 047-1:2002. Part 1: Minimum standards.

NRS 047-2:1999, Part 2: Reporting guidelines.

NRS 048 Electricity supply – Quality of supply

NRS 048-2: Part 2: Voltage characteristics, compatibility levels, limits and assessment methods.

NRS 048-4: Part 4: Application practices for NSPs.

NRS 048-6: Part 6: Measurement and reporting of medium-voltage network interruption performance.

NRS 048-7: Part 7: Application practices for customers.

NRS 048-8: Part 8: Measurement and reporting of extra high voltage (EHV) and high-voltage (HV) network interruption performance.

NRS 048-9: Part 9: Load reduction practices, system restoration practices and critical and essential load requirements under system emergencies.

Customer service standards (targets and minimums)

Relevant customer service standards must be included or reference in the Service Compact.

Annex 3: Summary delegations document

A summary of the formal delegations is to be included here, with a focus on management decision-making authority delegated to the SPoMA. The guideline is that this document should be a manageable length of about five (5) pages.

Where services have previously been undertaken by other metro departments, the summary delegations document must clearly show the management decision-making authority vested in the trading service Single Point of Management Accountability for each of these services, as presented below:

- Finance, this must include management decision-making authority with respect to operating the business to meet the A3: PIAP's and the financial bottom line as per the Financial Business Model and Business Plan. If budget support does not come from the service authority, and before contract breach comes into play, management shall have the authority to seek and submit alternative funding arrangements based on the business plan, and this must be considered in good faith by the service authority. Management shall have the right to develop and submit annual Cost of Service tariffs studies and multiyear price determination for business feasibility and turnaround. The Service Authority shall have the obligation to consider them in good faith.
- Human resources, this must include management decision-making authority with respect to appointments, disciplinary matters, dismissals, performance management, career path mapping, promotions, and related matters, for all staff directly reporting to the trading services head. Sole decision-making on competency appointment where legislation like the Engineering and OHS Acts requires specific competencies.
- Supply chain management, this must include management decision-making authority with respect to all aspects of procurement in compliance with approved policy and relevant regulations. Engineering and industry best practices shall always rule in the setting of procurement standards.
- Customer services and revenue management, this must include management decision-making authority with respect to customer care, call centre management, communications processes and feedback loops, protocols for engaging with customers, metering approaches, payment arrangements, customer satisfactions surveys etc. Revenue management authority must cover activities related to credit control and debt collection as provided for in the MSA, such as actions related to enforcing policy including debt management actions such as disconnections and reconnections, and theft-loss minimisation.
- Fleet management, this must include management decision-making authority with respect to all factors influencing fleet availability, acquisition, optimising utilisation, and vehicle tracking.

The service provider must have sole discretion on all information technology and operational technology requirements that are necessary to reach the predetermined A3: PIAP requirements.

Annex 4: Service level agreement template

(template)

Internal Service Level Agreement

Between

Trading Service
(Herein represented by the SPoMA)

And

Service Provider
e.g. Legal Services, Corporate
(Herein represented by Executive Director: xxx)

Hereafter jointly known as the parties

1. PURPOSE & OBJECTIVES

The overall purpose of this SLA is to define the levels of service that will be provided by the xxx Department/Branch to the xxx business unit, and to ensure that a mutual understanding exists regarding service expectations and the commitments between the two parties.

The specific objectives of the SLA are to:

- Define the nature and scope of the service provided;
- Determine service standards to be adhered to;
- Define roles and responsibility of the parties to the agreement;
- Provide the basis for determining the cost of the service and related financial arrangements;
- Define reporting obligations; and
- Provide for corrective measures, escalation, and consequences.

2. SERVICE DEFINITION AND SCOPE

This section must define the basic parameters of the service that is provided.
The SLA must distinguish between a core and ancillary service.

3. SERVICE STANDARDS

This section must define key service standards and how they are to be measured.

(examples)

Service	Measurement	Standard	Benchmark	Frequency
Call Centre	Call handing performance	85 % of incoming calls should be responded to within 15 seconds	NRS 047-1:2002	Monthly reporting
Legal opinions	Responsiveness (Days)	7-days	***	Monthly reporting
Recruitment adverts	Responsiveness (Days)	Within 5 working days of submission	***	Monthly reporting
Tree removal (eg. for network maintenance)	Responsiveness (Days)	Within 14 days of email request	***	Monthly reporting
Security escort (eg. for removal of illegal connections)	Responsiveness (Days)	Within 5 days of email request	***	Monthly feedback

4. ROLES AND RESPONSIBILITIES

Roles and responsibilities for key stakeholders and role players must be detailed and outlined in the Standard Operating Procedure (SOP) workflow diagram, and include details of role-players e.g.

- Call Centre Manager: Jane Soap, Cell number: 082 555 5555
- Call Centre: Assistant Manager: Jo Soap, Cell number: 082 666 6666

Service provider responsibilities must be outlined in sufficient detail to provide clarity: e.g. to advise Client of any problems or potential problems, to draw statistics of service delivery, to present performance at monthly meetings etc.

5. COSTS AND FINANCIAL ARRANGEMENTS

This section must set out how the costs of the service are to be determined, together with relevant benchmarks where available.

Examples

	Cost basis	Unit cost	Benchmark cost	Budgeted monthly cost
Call centre	Cost per call received	***	***	***
Legal opinions	Rands per hour	***	***	***
Security escort	Rands per day	***	***	***

6. INFORMATION AND REPORTING OBLIGATIONS

This section must set out the reporting obligations, including details of the information to collected and retained, and the frequency of reporting (e.g. monthly, quarterly or annually).

Reporting obligations must include:

- Reporting of performance against performance standards
- Reporting of costs (unit and total costs) against anticipated (budgeted) costs

7. CORRECTION MEASURES, ESCALATION AND CONSEQUENCES

Corrective measures

Processes to address poor and non-performance must be included in the SLA, with timeframes

Example:

- Notification of poor or non-performance
- Statement of intended corrective action (within 14 days)
- Reporting on corrective actions (monthly)
- Monitoring of results (monthly)

Escalation

Where these corrective measures are not productive, a process for escalation (with timeframes) needs to be defined. This outlines the escalation path to be followed where there is an SLA breach or where there is a reported service delivery delay, and where corrective actions are not undertaken or fail. It is a combination of functional and hierarchical escalation, and its purpose is to ensure the restoration of service delivery in a timely manner and to prevent further recurrences of the incident or problem. The escalation criteria and appropriate timelines will depend on the terms of each service covered in this agreement.

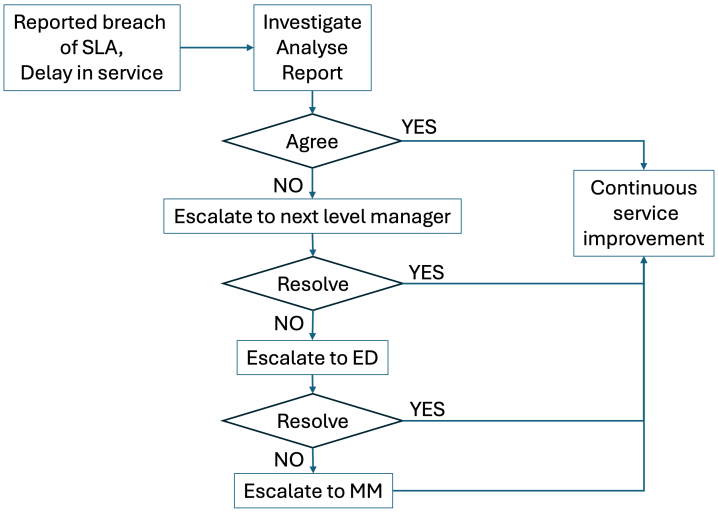

Figure 2 Example of Standard Operating Procedure (SOP) diagram for escalation.

Consequence – a right to alternative contracting

Where corrective actions and escalation fail, the service provider must be given the right in the service compact to contract with an alternative.

8. TRANSITIONAL ARRANGEMENT AND TIMELINE

Where the SLA is for a core service (See Section 4 in Guideline document), it must be stated that the SLA is a transitional arrangement, and a timeline for the transfer of the service, with full executive decision-making authority to the SPoMA, must be specified. This timeframe should not be longer than three years.

9. REVIEW AND RENEWAL

Frequency of performance and SLA review and renewal must be agreed between the parties.

A service performance review should be undertaken quarterly or six-monthly initially, and then less frequently once performance is satisfactory and stabilised.

SLA review should be undertaken at least annually.

Thus, done and signed at .....on this .... day of .. ..

FOR SERVICE PROVIDER	FOR CLIENT
Name:	Name:
Designation:	Designation:
Signature:	Signature:

Annex 5: Breach and corrective measures

(Example)

Definitions

A **material breach** is a failure, by either party to the service compact, to adhere to the terms and conditions set out in the service compact without reasonable cause, and which results in adverse effects of a material nature on customers, undermines the ability of the service provider to fulfil its service obligations and sustain services, or any other material or serious consequence. A material breach includes, but is not limited to:

- Failure to make timely approvals
- Failure to honour financial obligations
- Failure to comply with legislation
- Failure to meet defined minimum service standards

A breach is to be treated as a material breach if either of the two parties consider it such.

Other **non-material breaches** are those where either party fails to adhere to the terms and conditions set out in the service compact but where such a breach is deemed to be non-material by both parties.

Corrective Action Plan: An action plan outlining specific remedial actions, responsible officials, implementation timelines and indicators to monitor progress and closure.

Process

While the processes to address a breach and take corrective actions are essentially similar for both material and non-material breaches, the former is to be treated as a priority with adherence to strict timelines for corrective actions and escalation.

Notification: Either party will notify the other in writing, detailing the nature of the alleged breach, when it is alleged to have occurred (or commenced) together with a preliminary assessment of impact and materiality (material or non-material).

Response. In the case of any breach deemed as material, the party notified of a breach must acknowledge receipt within 5 working days, or 10 working days in other cases.

Investigation, assessment and corrective action plan: In the case of an alleged material breach, the party receiving the notification undertakes a prompt internal review to determine the cause, extent, and implications of the breach, and develop a **corrective action plan**. This must be completed and submitted within 10 working days of notification, unless otherwise agreed. In the case of non-material breaches the timeframe is 20 working days.

Agreed corrective actions. Both parties must approve the plan, and either party may recommend additional measures or oversight mechanisms prior to approval.

Escalation and Sanctions: If there is a failure to reach agreement on the action plan (within 5 working days in the case of a material breach, or 10 working days in other cases, or if the parties responsible to implement the agreed corrective action fail to do with the approved timeframes, or if the breach recurs, consequences may include:

- Consequence management for responsible persons, including institution of disciplinary measures; and/or
- Notification to National Treasury. (Note, breach of the minimum conditions has a material impact on the Metro Trading Services Reform incentive grant.)

Reporting: A summary of all breaches, corrective actions, and outcomes shall be included in the Service Provider annual reports. Material or persistent breaches shall be highlighted in these reports.

Oversight

Oversight bodies will be notified of material or persistent breaches.