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Provision of services - Part 2: Services contracts - Guidance for the design, content and structure of contracts

Dienstleistungserbringung - Teil 2: Dienstleistungsverträge - Leitlinien für die Gestaltung, Inhalt und Struktur von Verträgen

Prestation de services - Partie 2 : Contrats de services - Recommandations pour l'élaboration, le contenu et la structure des contrats

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03.080.01 Storitve na splošno Services in general

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EUROPEAN STANDARD

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Provision of services - Part 2: Services contracts - Guidance for the design, content and structure of contracts

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This European Standard was approved by CEN on 21 June 2021.

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European foreword

This document (EN 17371-2:2021) has been prepared by Technical Committee CEN/TC 447 “Horizontal standards for the provision of services”, the secretariat of which is held by BSI.

This European Standard shall be given the status of a national standard, either by publication of an identical text or by endorsement, at the latest by May 2022, and conflicting national standards shall be withdrawn at the latest by May 2022.

Attention is drawn to the possibility that some of the elements of this document may be the subject of patent rights. CEN shall not be held responsible for identifying any or all such patent rights.

This document has been prepared under a Standardization Request given to CEN by the European Commission and the European Free Trade Association.

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Introduction

This document is part of a series of European Standards that address different phases in the provision of services (see Figure 1): the service procurement phase (EN 17371-1), the service contracting phase (EN 17371-2) and the service execution phase (EN 17371-3).

Each part of the series can be used individually or in combination with the other parts.

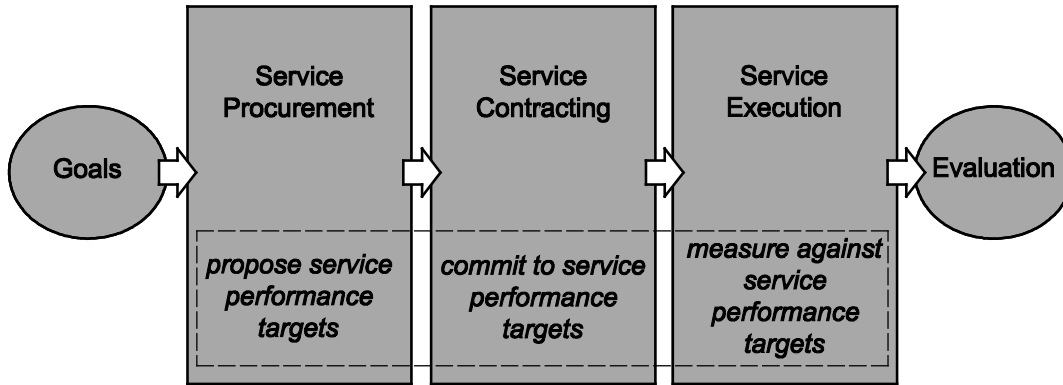


Figure 1 — Phases in the provision of services

The drafting of the series was initiated after CEN presented the findings of a study on the potential and a possible impact of horizontal service standards on the EU single market for services. This study was as a response to mandate M/517 from the European Commission for programming and development of horizontal service standards. The objective of this mandate was to encourage the development of voluntary European Standards covering issues common to many service sectors. Such standards should aim to facilitate compatibility between service providers and improve information and the quality of services to the recipient.

This document addresses the service contracting phase and has been developed to provide organizations with guidance on the design, content and structure of service contracts. No part of this document is intended to be mandatory for inclusion in a service contract; rather it is structured to enable organizations entering into a service contract to identify the solution best suited to achieve the intended business outcomes. The guidance lists the key contents of a service contract that organizations might consider as part of the broader solution being contracted. Based on the nature of services being contracted, the service buyer and service provider can decide upon the specific content for their service contract. This document does not provide guidance regarding the applicable legal rules and regulations.

1 Scope

This document provides guidance on the design, content and structure of service contracts. It is aimed at service buyers and service providers entering a contractual relationship who do not necessarily have legal training. The guidance set out in this document does not constitute legal advice.

This document is applicable to:

- a) service buyers and service providers regardless of type, size or the nature of the services;
- b) service providers who may be inside or outside the service buyers' organization; and
- c) any interested parties who are directly or indirectly involved in or affected by a procurement process.

This document is not applicable to service contracts where the service buyer is a consumer, nor for works contracts.

NOTE 1 “Works contracts” are contracts that have as their object the execution, or both the design and execution, of a work are not covered. Contracts having as their object only the design of a work are covered.

NOTE 2 “Work” means the outcome of building or civil engineering works taken as a whole which is sufficient in itself to fulfil an economic or technical function.

NOTE 3 “Consumer” means an individual member of the general public purchasing or using services for private purposes.

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2 Normative references (standards.iteh.ai)

There are no normative references in this document.

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3 Terms and definitions

For the purposes of this document, the following terms and definitions apply.

ISO and IEC maintain terminological databases for use in standardization at the following addresses:

- IEC Electropedia: available at <https://www.electropedia.org/>
- ISO Online browsing platform: available at <https://www.iso.org/obp>

3.1

contracting parties

contracting party

service buyer and service provider which conclude a service contract

Note 1 to entry: Each service buyer/provider is considered a contracting party.

3.2

service buyer

organization that buys services from a service provider

Note 1 to entry: In public procurement, the service buyer may also be known as the contracting authority/entity.

EN 17371-2:2021 (E)**3.3****service contract**

agreement between a service buyer and service provider setting out their legally binding rights and obligations for the provision of services

3.4**service performance target**

target level of a key performance indicator to express the need, expectation, or obligation of service buyer

3.5**service provider**

organization that offers or delivers one or more services

4 Purpose of a service contract

Service contracts form legally binding agreements between the service buyer and service provider that enter into them and have the key purpose of providing clarity on who is ordering a service, who is providing the service, what service should be provided, where and when and for what remuneration. The service contract should be in writing, as well as dated and signed by the service buyer and the service provider.

What a “good” service contract looks like will vary depending on the circumstances (in most situations there is no such thing as a “standard contract”). The contracting parties should strive to ensure that whatever clauses are included in the service contract, those clauses are drafted using straightforward, clear and concise wording. The service contract should aim to be as short as possible but as long as is necessary.

5 Service contract structures

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It is important that the necessary contents of a service contract are brought together into a clear structure. While there are certain basic elements that should be present in all service contracts (as mentioned in Clause 4 above), the length and structure may vary considerably.

Service contracts based on common law systems (such as English law) tend to be longer than in civil law systems (like much of the rest of Europe) as few provisions are implied by law therefore the service contract tends to be more comprehensive in setting out all of the terms which will govern the supply of services. In civil law systems much of the law is codified and will apply to contracts they govern unless otherwise specified.

The service contract may take the form of a framework which provides a structure and mechanism for ordering and providing services from time to time on the terms established under the service contract. Often this mechanism involves completing a template document to the service contract which sets out, within the terms under the framework, the specific services, specifications and obligations in respect of the services, service standards, economics and other considerations that determine and impact the delivery of services.

In order to keep larger and more complex service contracts easier to read and manageable, specific elements of the service contract are often dealt with in schedules, exhibits or attachments to the main agreement such as with lengthy service descriptions, service level and credit mechanisms or charging mechanisms.

There is no fixed rule on which party will establish the basis of the service contract. In some cases, it may be established by the service buyer possibly through and as part of the service procurement process (see EN 17371-1) while in other cases it may be established by the service provider.

6 Content of a service contract

6.1 General

This Clause provides an overview of the key content that may be found in a service contract, their function and purpose.

In order to enable the contracting parties to approach discussions from a business-orientated standpoint, the contractual content to be considered has been grouped under the following themes:

- Who is entering into the service contract? (subclause 6.2);
- What are the services – how are they specified, ordered and what are the service performance targets? (subclause 6.3);
- How are charges calculated and paid? (subclause 6.4);
- What legal system governs the service contract? (subclause 6.5);
- How will the contracting parties deal with disputes? (subclause 6.6);
- What is the exposure? (subclause 6.7);
- What rights are there in and to the service outputs? (subclause 6.8);
- When does the agreement commence, how is it terminated and what are the consequences of termination? (subclause 6.9);
- What considerations relate to information/data? (subclause 6.10);
- Making changes to the agreement and the contracting parties' relationship (subclause 6.11);
- What other terms need to be considered? (subclause 6.12).

6.2 Who is entering into the service contract?

In general, the obligations, rights and remedies under a service contract will apply to, and be enforceable by, only the contracting parties to such agreement. Therefore, it is important to clearly identify which legal entities are entering into the service contract.

Where the contracting parties are not identified or are not correctly or sufficiently identified, then there is a risk that the service contract is either not enforceable or that it is enforceable but against an unintended party. This could happen, for example, where one of the contracting parties is referred to as XYZ and is a member of a group of companies with similar names, meaning it is not clear if the contracting party refers to XYZ the subsidiary company or XYZ the parent company.

Service contracts should clearly identify the contracting parties to such service contract. To do this it is useful to include any registration details such as a company registration number or registered office where these are listed in an official database e.g. Companies House for English registered companies, the German Commercial Register for German registered companies or the Registre de Commerce et des Sociétés for French companies.

If there are more than two parties entering into the service contract (for example, more than one entity on the service buyer or service provider side) then each additional party should be specified and thought should be given as to which terms will apply to which parties. This document assumes there are two parties to the service contract, the service buyer and service provider.

The service contract signed on behalf of an organization should be signed by authorized representatives of the contracting parties and identified in the service contract.

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6.3 What are the services – how are they specified, ordered and what are the service performance targets?**6.3.1 Service description**

A fundamental element of the service contract is the service scope and description which defines the services which are being sourced by the service buyer from the service provider. In service contracts developed by the contracting parties in a collaborative manner with the intent of building a positive relationship, the service buyer specifies what it wants and shifts the responsibility of determining how the work gets delivered to the service provider. Whilst this is a general principle, it should be remembered that in the context of some services being contracted, the contracting parties need to consider if there is a need for a detailed description of how the services are provided or whether the focus should be on the composition of services being provided. In either context it is very important for contracting parties to spend time to get this part correct as this would determine the services that eventually get delivered by the service provider, not just what gets delivered but also its efficiency, effectiveness and future transformation.

For each service being delivered the contracting parties should consider which party is responsible for meeting the requirements, what they are required to do, where it should be done, by when and (where relevant) in what manner (the who, what, where, when and how) and then detail this in the service contract.

Annex A provides considerations to be kept in mind while designing the service scope and description.

6.3.2 Transition and transformation during the provision of services

For some service contracts there may be a need for an initial transfer of people, assets and/or processes from either the service buyer or the incumbent service provider being replaced. Once such transition activities have been completed, the incoming service provider would then be able to commence with the supply of services to the service buyer.

Transformative activities entail making changes to the provision of such services so what the service buyer then receives will be different to what was being supplied previously.

Where such activities are required within the scope of the service contract, the contracting parties may consider:

- What the scope of such services are (see subclause 6.1).
- What the output or deliverables of the services are.
- When such activities should be completed by i.e. a milestone date.
- What the consequences of failing to reach such a milestone would be (termination, liquidated damages, etc.).

6.3.3 Mechanism for ordering services

This subclause addresses the theme of how the service contract allows the service buyer to order services.

Along with a description of the services being provided, the contracting parties should consider whether the service contract needs to set out a process for how the services will be ordered throughout its duration. For some service contracts it may be appropriate for all services to be provided from the date the service contract becomes effective, while for others the supply of services may only be needed on a project-by-project basis in which case the service contract should specify the mechanism for ordering such services.

Another consideration which should be addressed in the service contract if applicable is whether group companies of the contracting parties entering into the service contract may order and supply services under the terms of the service contract using the same mechanism.

6.3.4 Service performance targets

6.3.4.1 General

EN 17371-3 provides guidance and a model for defining a service measurement structure to facilitate service monitoring, measurement analysis and evaluation.

Service performance management is an important element in service contracts to ensure the robust and efficient management of performance of services agreed between the contracting parties. In keeping with the spirit of building a relational contract, this element is aimed at a collaborative exercise between the contracting parties to achieve the desired performance levels. The allocation of responsibility outlined in subclause 6.3.1 forms the basis for this element by outlining the performance levels expected of the service provider on the assumption that the service buyer discharges its obligations.

Service performance management should be viewed as a means to provide insight into service delivery and to drive continuous improvement. Too much emphasis on a large set of metrics could drive focus towards the minutiae, losing sight of the bigger picture.

Cost and effort are also expended in tracking, measuring, collating and reporting performance metrics so this effort should be focused on key metrics.

The service management framework in the service contract should be based on the following principles:

- Provide a comprehensive framework to measure end-to-end process performance;
- Align service metrics with the desired business outcomes;
- Establish transparent and clear allocation of responsibility and accountability for service delivery between the service buyer and service provider;
- Establish governance protocols (including financial mechanisms) embedded in the service management framework to ensure continuous performance review, ongoing course correction and service improvement;
- Provide stability in service performance;
- Provide visibility and transparency of service performance to all stakeholders; and
- Drive behaviour to actively move service performance targets to higher global performance levels over the life of the service contract.

6.3.4.2 Service performance metrics

6.3.4.2.1 Definition

Service performance metrics are indicators of the performance of services being delivered as part of the service contract, including both those delivered by the service provider and the end-to-end service activities retained by the service buyer.

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The process of designing these metrics is covered in EN 17371-3. Once identified, the service performance management mechanism to be included in the service contract should consider the following:

- What is the service or event being measured?
- Over what period of time are the measurements to be assessed (daily, weekly, monthly, annually)?
- What is the standard of performance to be achieved e.g. 98 % of service availability?
- Will there be a burn-in period where the parties collect data and agree on a realistic baseline for measurement? (see 6.3.4.3)
- Are there any exclusions from such measurements e.g. downtime of a platform while routine maintenance takes place?
- Which party will measure and report against the service performance targets and how often?
- How can the contracting parties modify, add or remove any service performance targets over time?
- What is the impact of failing to meet a service performance target?
- If financial penalties (also termed service credits) apply, will they be deducted immediately or upon request?
- Is there a cap on the amount of service credits?
- Are service credits the sole and exclusive remedy for a service performance target failure or are they in addition to other rights (including termination)?

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6.3.4.3 Data collection and baseline process

It is very important for the service contract to include baseline measurements for all metrics including volume metrics. The importance of the baseline lies in being the starting point for all future measurements over the term of the service contract. The baselines should be agreed by the contracting parties using the agreed measurement definition and methodology. It is advisable for both contracting parties to consider the need for undertaking a baseline exercise. While it may be expedient in the short term, it can have significant adverse effect over the term of the service contract. Hence it is a decision that should not be taken lightly.

Further, it is also important to agree and document in the service contract the baselining methodology. For example, to arrive at a baseline for a metric measured monthly, would six months data suffice or 12 months, how would data outliers be handled etc.? Baselining is not just a one-off activity to be performed at the start of the service contract but would need to be undertaken during the term of the service contract should a new metric be introduced.

In some instances, historical data may not be available, either at the commencement of the service contract or during its term. To address this situation, service contracts use a concept known as a "Burn-In period" to enable the contracting parties to track and measure the metric for an agreed length of time. At the end of this period, the contracting parties agree to a baseline derived from the measurements during this period.

Some service contracts suspend the service penalty in respect of service performance metrics within the duration of the burn-in period.