

Single Source Regulations Office (SSRO)

Framework Document

May 2022

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Introduction and Background

1. Purpose of document

- 1.1. This Framework Document (the “Framework Document”) has been drawn up by the Ministry of Defence (MOD) in consultation with the Single Source Regulations Office (SSRO) in accordance with HM Treasury's handbook Managing Public Money (“MPM”).
- 1.2. The Framework Document sets out the broad governance framework within which the SSRO and the MOD operate. It sets out the SSRO's core responsibilities; describes the governance and accountability framework that applies between the roles of the MOD and the SSRO; and sets out how the day-to-day relationship works in practice, including in relation to governance and financial matters.
- 1.3. The document does not convey any legal powers or responsibilities but both parties agree to operate within its terms.
- 1.4. If the SSRO establishes a subsidiary or joint venture, there shall be a document setting out the arrangements between the subsidiary or joint venture and the SSRO, agreed with the MOD.
- 1.5. Copies of this document and any subsequent amendments have been placed in the Libraries of both Houses of Parliament and made available to members of the public on the SSRO website.¹
- 1.6. This Framework document should be reviewed and updated at least every 3 years unless there are exceptional reasons that render this inappropriate that have been agreed with HM Treasury and the Principal Accounting Officer of the Sponsor Department. The latest date for review and updating of this document is 31 May 2025.

2. Objectives

- 2.1. Part 2 of the Defence Reform Act 2014 (the Act)² and the Single Source Contract Regulations 2014 (the Regulations) aim to ensure that good value for money is obtained in MOD expenditure on qualifying defence contracts and that persons who are parties to those contracts are paid a fair and reasonable price. The SSRO is required to ensure that this aim is achieved when carrying out its statutory functions.
- 2.2. To achieve the statutory aims, the SSRO and the MOD will work together in recognition of each other's roles and areas of expertise, providing an effective environment for the SSRO to achieve its objectives through the promotion of partnership and trust, and ensuring that the SSRO also supports the strategic aims and objective of the government.

¹ [Single Source Regulations Office - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

² [Defence Reform Act 2014 \(legislation.gov.uk\)](http://legislation.gov.uk)

3. Classification

- 3.1. The SSRO has been administratively classified by the Cabinet Office as a non-departmental public body and operates independently at arm's-length from MOD, enabling it to appropriately fulfil its statutory functions as set out in Part 2 of the Act and the Regulations.
- 3.2. The SSRO was classified as a central government organisation by the Office of National Statistics.

Purposes, Powers and Duties, and Aims

4. Purposes

- 4.1. The SSRO has been established under the Act. Its purposes are set out in Part 2 of the Act and the Regulations.
- 4.2. Its statutory functions and responsibilities are set out within that legislation and summarised in this Framework Document.

5. Powers and Duties

5.1. The SSRO's powers, statutory duties and functions include:

- Keeping an up-to-date record of qualifying contracts and receiving statutory reports from defence contractors under the regulatory framework.
- Recommending the appropriate baseline profit rate, capital servicing rates and SSRO funding adjustment for use in calculating contract profit rates.
- Publishing guidance on Allowable Costs, Contract Profit Rate steps, Reporting and Penalties.
- Keeping the operation of the regulatory framework under review and making recommendations for changes to the Secretary of State.
- Giving opinions and making determinations on matters referred to the SSRO concerning the regulatory framework.
- Keeping under review the extent to which reporting requirements are being complied with.
- Analysing reported data on request for the Secretary of State.

6. Aims

6.1. In carrying out its functions under or by virtue of Part 2 s.13 of the Act, the SSRO must aim to ensure that:

- good value for money is obtained on government expenditure on qualifying defence contracts
- persons (other than Secretary of State for Defence) who are parties to qualifying defence contracts are paid a fair and reasonable price under those contracts.

Role of the Ministry of Defence

7. The Responsible Minister

- 7.1. The Secretary of State for Defence (SofS) will account for the SSRO on all matters concerning the SSRO in Parliament.
- 7.2. The Minister's statutory powers in respect of the SSRO are set out in the Act. The overarching objective and functions of the SSRO are laid down in Part 2 and subsequent sections of the Act.
- 7.3. The SofS has delegated the responsibility for the day-to-day delivery of these functions and powers to the Minister for Defence Procurement (Min(DP)). Through the exercise of these powers Min(DP):
 - is responsible for the policy and legislative framework within which the SSRO operates;
 - provides guidance and direction to ensure the strategic aims and objectives of the SSRO are consistent with those of the Department and Government;
 - approves the SSRO corporate plan and business plan;
 - has a power of appointment in relation to the appointment of the SSRO Chair in line with the Governance Code on Public Appointments;
 - has a power of appointment in relation to non-executives; in line with the Governance Code on Public Appointments; and
 - has a power of approval in relation to the appointment of the SSRO Chief Executive and Chief Operating Officer (or equivalent).
- 7.4. The Chair of the SSRO will have regular access to ministers to engage on matters related to the regulatory framework. The Chief Executive of the SSRO, as accounting officer, has access to the Permanent Secretary in matters relating to delivery of the SSRO's statutory functions.

8. The Principal Accounting Officer (PAO) Accountabilities and Responsibilities

- 8.1. The PAO is the Permanent Secretary of the Ministry of Defence.
- 8.2. The Principal Accounting Officer (PAO) of the Ministry of Defence designates the Chief Executive as the SSRO's accounting officer and ensures that they are fully aware of their responsibilities. The PAO issues a letter appointing the Accounting Officer, setting out their responsibilities and delegated authorities.
- 8.3. The respective responsibilities of the PAO and accounting officers for ALBs are set out in Chapter 3 of Managing Public Money.
- 8.4. The PAO is accountable to Parliament for the issue of any grant-in-aid to the SSRO.
- 8.5. The PAO is also responsible, usually via the MOD's Sponsorship team, for advising the Responsible Minister on:
 - an appropriate framework of objectives and targets for the SSRO in light of the MOD's wider strategic aims and priorities;

- an appropriate budget for the SSRO in light of the MOD's overall public expenditure priorities;
- how well the SSRO is achieving its strategic objectives and whether it is delivering value for money; and
- the exercise of the Minister's statutory responsibilities concerning the SSRO as outlined above.

8.6. The PAO via the Sponsorship team is also responsible for ensuring arrangements are in place in order to:

- monitor the SSRO's activities and performance;
- address significant problems in the SSRO, making such interventions as are judged necessary;
- periodically and at such frequency as is proportionate to the level of risk, carry out an assessment of the risks both to the Department and to the SSRO's objectives and activities in line with the wider Departmental risk assessment process;
- inform the SSRO of relevant government policy in a timely manner; and
- bring Ministerial or Departmental concerns about the activities of the SSRO to the full SSRO Board, and, as appropriate to the Departmental Board, requiring explanations and assurances that appropriate action has been taken.

9. The role of the MOD Sponsorship and Policy teams

9.1. The Ministry of Defence's Directorate of Sponsorship and Organisational Policy (DSOP) team and the Single Source Advisory Team (SSAT) are the primary Departmental contacts for the SSRO. Director DSOP is the responsible Senior Civil Servant for the Sponsorship relationship and is the main source of advice to the Responsible Minister on the discharge of their responsibilities in respect of the SSRO.

9.2. Officials of these teams will liaise regularly with SSRO officials to review performance against plans, achievement against targets and expenditure against its allocated Grant in Aid. The teams will also explain wider Departmental developments that might have an impact on the SSRO.

9.3. The MOD Sponsorship team, in consultation with MOD stakeholders, is also responsible for inputting into:

- the SSRO corporate plan (including its key performance targets), and the Performance and Risk Review process;
- SSRO Board recruitment campaigns and providing a policy view on Board level job specifications and criteria.

9.4. The MOD Policy team is responsible for:

- the maintenance and development of the Defence Reform Act and Single Source Regulations 2014, including reviewing the regime and implementing any changes to ensure it continues to deliver MOD objectives;

- advising the MOD commercial delivery teams on the application of the the Single Source Contract Regulations (SSCRs);
- driving greater use of the SSCRs; to remain the MOD expert on the SSCRs, consolidating the views of MOD stakeholders before presenting the Departmental position on all SSCR matters.

10. Resolution of disputes between the SSRO and Department

10.1. Any disputes between the SSRO and the Department will be resolved in as timely a manner as possible. The SSRO and the Department will seek to resolve any disputes through an informal process in the first instance. If this is not possible, then a formal process, overseen by the Senior Sponsor, will be used to resolve the issue. Failing this, the Senior Sponsor will ask the relevant policy Director General to oversee the dispute. They may then choose to ask the Permanent Secretary to nominate a non-executive member of the Department's Board to review the dispute, mediate with both sides and reach an outcome, in consultation with the Secretary of State.

11. Freedom of Information requests

11.1. Where a request for information is received by either party under the Freedom of Information Act 2000, the Environmental Information Regulations or the Data Protection Act 1998 or 2018, the party receiving the request will consult with the other party prior to any disclosure of information that may affect the other party's responsibilities.

12. Reporting on legal risk and litigation

12.1. The SSRO shall provide a quarterly update to the Sponsor on the existence of any active litigation and any threatened or reasonably anticipated litigation or legal risk. The parties acknowledge the importance of ensuring that legal risks are communicated appropriately to the Sponsor in a timely manner.

12.2. In respect of each piece of litigation involving the SSRO, the parties will agree a litigation protocol which will include specific provisions to ensure appropriate and timely reporting on the status of the litigation and the protection of legally privileged information transmitted to the Sponsor to facilitate this. Until such time as a protocol is agreed, the parties will ensure that:

- material developments in the litigation are communicated to the Sponsor in an appropriate and timely manner;
- legally privileged documents and information are clearly marked as such;
- individual employees handling the legally privileged documents are familiar with principles to which they must adhere to protect legal privilege; and
- circulation of privileged information within government occurs only as necessary.

SSRO Governance and Structure

13. Governance and Accountability

13.1. The SSRO shall operate corporate governance arrangements that, so far as practicable and in light of the other provisions of this Framework Document or as otherwise may be mutually agreed, accord with good corporate governance practice and applicable regulatory requirements and expectations.

13.2. In particular (but without limitation), the SSRO shall:

- comply with the principles and provisions of the Corporate Governance in Central Government Departments Code of Good Practice (as amended and updated from time to time) to the extent appropriate and in line with their statutory duties, or specify and explain any non-compliance in its annual report;
- comply with Managing Public Money;
- in line with Managing Public Money, have regard to the relevant Functional Standards³ as appropriate and in particular those concerning Finance, Commercial and Counter Fraud; and
- take into account the codes of good practice and guidance set out in Annex A of this Framework Document, as they apply to Arm's Length Bodies.

13.3. In line with Managing Public Money Annex 3.1, the SSRO shall provide an account of corporate governance in its annual governance statement including the Board's assessment of its compliance with the Code, with explanations of any material departures. To the extent that the organisation does intend to materially depart from the Code, the Sponsor should be notified in advance and their agreement sought to this approach.

14. The Chief Executive

Appointment

14.1. The Chief Executive is appointed by the SSRO non-executive members under Schedule 4 s.2(1) of the Act with the approval of the Responsible Minister.

Responsibilities of the SSRO's Chief Executive as Accounting Officer

14.2. The Chief Executive as Accounting Officer is personally responsible for safeguarding the public funds for which they have charge; for ensuring propriety, regularity, value for money and feasibility in the handling of those public funds; and for the day-to-day operations and management of the SSRO. In addition, they should ensure that the SSRO as a whole is run on the basis of the standards, in terms of governance, decision-making and financial management, that are set out in Box 3.1 of Managing Public Money. These responsibilities are outlined below and are set in the Accounting Officer appointment letter issued by the Principal Accounting Officer of the Sponsor Department.

³ <https://www.gov.uk/government/collections/functional-standards>

Responsibilities for accounting to Parliament and the Public

14.3. Responsibilities to Parliament and the public include:

- signing the accounts and ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared and presented in accordance with any directions issued by the Secretary of State for Defence;
- preparing and signing a Governance Statement covering corporate governance, risk management and oversight of any local responsibilities, for inclusion in the annual report and accounts;
- ensuring that effective procedures for handling complaints about the SSRO in accordance with Parliamentary and Health Service Ombudsman's Principles of Good Complaint Handling are established and made widely known within the SSRO and published on the SSRO website;
- acting in accordance with the terms of Managing Public Money and other instructions and guidance issued from time to time by the Department, the Treasury and the Cabinet Office;
- ensuring that as part of the above compliance they are familiar with and act in accordance with:
 - any governing legislation to this framework document,
 - any letter of responsibilities and delegated authorities issued to SSRO as set out in paragraph 19.1
 - any elements of any settlement letter issued to the Sponsor Department that is relevant to the operation of the SSRO; and
 - any separate settlement letter that is issued to the SSRO from the Sponsor Department.
- ensuring they have appropriate internal mechanisms for the monitoring, governance and external reporting regarding compliance any conditions arising from the above documents.
- giving evidence, normally with the PAO, when summoned before the PAC on the SSRO's stewardship of public funds

Responsibilities to the Ministry of Defence

14.4. Responsibilities to the MOD include:

- establishing, in agreement with the Department, the SSRO's corporate and business plans in light of the Department's wider strategic aims and agreed priorities;
- informing the Department of progress in helping to achieve its policy objectives and in demonstrating how resources are being used to achieve those objectives;
- providing the Department with sufficient time (2 weeks for routine matters, at least 3-4 weeks for issues requiring consultation with Ministers) to give full consideration to requests, and to seek the necessary Ministerial view to reply;
- ensuring that timely forecasts and monitoring information on performance and finance are provided to the Department; that the Department is notified promptly if over or under spends are likely and that corrective action is taken; and that any significant problems whether financial or otherwise, and whether

detected by internal audit or by other means, are notified to the Department in a timely fashion.

Responsibilities to the Board

14.5. The Chief Executive is responsible for:

- advising the Board on the discharge of the SSRO Board's responsibilities as set out in this document, in the founding legislation and in any other relevant instructions and guidance that may be issued from time to time;
- advising the Board on the SSRO's performance compared with its aims and objectives;
- ensuring that financial considerations are taken fully into account by the Board at all stages in reaching and executing its decisions, and that financial appraisal techniques are followed.

Managing conflicts

14.6. The Chief Executive should follow the advice and direction of the Board, except in very exceptional circumstances and with a clear and transparent rationale for not doing so.

14.7. If the Board, or its chairperson, is contemplating a course of action involving a transaction which the Chief Executive considers would infringe the requirements of propriety or regularity or does not represent prudent or economical administration, efficiency or effectiveness, is of questionable feasibility, or is unethical, the Chief Executive in their role as Accounting Officer should reject that course of action and ensure that the Board have ample opportunity to discuss the rationale for that rejection.

14.8. Such conflicts should be brought to the attention of the Principal Accounting Officer and the Responsible Minister as soon as possible.

14.9. Furthermore, and if agreed with the responsible Minister, the Accounting Officer must write a letter of justification to the SSRO Board chair setting out the rationale for not following the advice and recommendation of the Board, and copy that letter to the Treasury Officer of Accounts.

14.10. If the Responsible Minister agrees with the proposed course of action of the Board it may be appropriate for the Minister to direct the Accounting Officer in the manner as set out in Managing Public Money paragraph 3.4 onwards.

15. The Board

Composition of the Board

15.1. The SSRO will have a Board in line with good standards of Corporate Governance as set out in its establishing statute and in guidance as set out in Annex A. The role of the Board shall be to run the SSRO, and to deliver: the Objectives, in accordance with the purposes as set out above; their statutory, regulatory, common law duties; and their responsibilities under this Framework Document. Detailed responsibilities of the Board shall be set out in the Board terms of reference.

Remuneration of the Board will be disclosed in line with the guidance in the Government Financial Reporting Manual (FRM). The independence and impartiality of the SSRO Board is important to the success of the regime.

- 15.2. The Board will consist of a chairperson, together with the Chief Executive, Chief Operating Officer and at least two non-executive members that among them have a balance of skills and experience appropriate to directing the SSRO's business. On the SSRO Board there should be members who have experience in both Government and industry, and they should have a complementary range of expertise as agreed by the MOD. The roles of Chair and Chief Executive must be held by different individuals. The Board must include a majority of independent non-executive members to ensure that executive members are supported and constructively challenged in their role and include a representative of the MOD Sponsor. If invited by the SSRO Chair, senior officials from the MOD and industry may attend all or part of Board and/or committee meetings.

Board Committees

- 15.3. The Board may set up such committees as necessary for it to fulfil its functions. As is detailed below, at a minimum this should include an Audit and Risk Committee chaired by an independent and appropriately qualified non-executive member of the Board.
- 15.4. While the Board may make use of committees to assist its consideration of appointments, succession, audit, risk and remuneration, it retains responsibility for and endorses final decisions in all of these areas. The chair should ensure that sufficient time is allowed at the Board for committees to report on the nature and content of discussion, on recommendations, and on actions to be taken.
- 15.5. Where there is disagreement between the relevant committee and the Board, adequate time should be made available for discussion of the issue with a view to resolving the disagreement. Where any such disagreement cannot be resolved, the committee concerned should have the right to report the issue to the Sponsor team, Principal Accounting Officer and Responsible Minister. They may also seek to ensure the disagreement or concern is reflected as part of the report on its activities in the annual report.
- 15.6. The chair should ensure Board committees are properly structured with appropriate terms of reference. The terms of each committee should set out its responsibilities and the authority delegated to it by the Board. The chair should ensure that committee membership is periodically refreshed and that individual independent non-executive directors are not over-burdened when deciding the chairs and membership of committees.

Appointments to the Board

- 15.7. The Chairperson is appointed by the Responsible Minister under Schedule 4 (1)(a) of the Act. This appointment is subject to the Public Appointments Order in

Council and as such must comply with the Governance Code on Public Appointments and should follow the MOD Public Appointments policy.⁴

- 15.8. At least two other Non-executive Members are appointed by the Responsible Minister under Schedule 4 (1)(b) of the Act. These appointments are subject to the Public Appointments Order in Council and as such must comply with the Governance Code on Public Appointments and should follow the MOD Public Appointments policy.
- 15.9. The recruitment panel for the non-executive members will include the SSRO chair, a representative from the MOD, a representative from industry, and an independent member. The recruitment panel for the executive members of the Board will be chaired by the SSRO chair.
- 15.10. All such appointments should have regard to the principle that appointments should reflect the diversity of the society in which we live, and appointments should be made taking account of the need to appoint Boards which include a balance of skills and backgrounds.
- 15.11. The MOD Sponsor, on behalf of the Responsible Minister, will appoint the MOD representative from the MOD Sponsor team to the SSRO Board.
- 15.12. The Secretary of State will decide the length of tenure an appointed person is to serve in accordance with Sch.4 s.3(1) of the Act. Once an individual's tenure has ended, Sch.4 s.3(6) of the Act enables eligibility for reappointment. It is envisaged that an individual shall not serve more than two terms, or serve in post for more than 10 years. In exceptional cases, the Secretary of State may decide the skills and expertise an individual possesses is required beyond such restrictions. Such exceptional reappointments/extension should be notified to the Commissioner for Public Appointments ahead of announcement.

Duties of the Board

- 15.13. The Board is specifically responsible for:
- establishing and taking forward the strategic aims and objectives of the SSRO, consistent with its overall strategic direction and within the policy and resources framework determined by the Secretary of State;
 - providing effective leadership of the SSRO within a framework of prudent and effective controls which enables risk to be assessed and managed;
 - ensuring the financial and human resources are in place for the SSRO to meet its objectives;
 - reviewing management performance;
 - ensuring that the Board receives and reviews regular financial and management information concerning the management of the SSRO;
 - ensuring that it is kept informed of any changes which are likely to impact on the strategic direction of the SSRO Board or on the attainability of its targets, and

⁴ Public Appointments to a Defence Organisation guidance.

- determining the steps needed to deal with such changes and where appropriate bringing such matters to the attention of the Responsible Minister and Principal Accounting Officer via the executive team, Sponsorship team or directly;
- ensuring that any statutory or administrative requirements for the use of public funds are complied with; that the Board operates within the limits of its statutory authority and any delegated authority agreed with the Sponsor Department and in accordance with any other conditions relating to the use of public funds; and that in reaching decisions, the Board takes into account requirements and guidance issued by the MOD;
- ensuring that as part of the above compliance they are familiar with:
 - this framework document,
 - any letter of responsibilities and delegated authorities issued to SSRO as set out in paragraph 19.1
 - any elements of any settlement letter issued to the Sponsor Department that is relevant to the operation of the SSRO; and
 - any separate settlement letter that is issued to the SSRO from the MOD; and
 - that they have appropriate internal mechanisms for the monitoring, governance and external reporting regarding any conditions arising from the above documents and ensure that the SSRO's Chief Executive and the SSRO as a whole act in accordance with their obligations under the above documents.
- demonstrating high standards of corporate governance at all times, including by using the independent audit committee to help the Board to address key financial and other risks;
- appointing, with the Responsible Minister's approval, a Chief Executive and, in consultation with the Department, set performance objectives and remuneration terms linked to these objectives for the Chief Executive which give due weight to the proper management and use and utilisation of public resources; and
- determining all such other things which the Board considers ancillary or conducive to the attainment or fulfilment by the SSRO of its Objectives.

15.14. Additionally, the Board is responsible for ensuring the organisation has the expertise, skills, and experience to establish impartial expert panels to carry out its statutory function of making non-legally binding opinions, and legally binding determinations upon referral by an MOD official or industry as set out in the Act.

15.15. The Department is responsible for putting in place mechanisms for annual evaluation of the performance of the Chairperson, taking into account the views of relevant stakeholders, including Board members. The outcome of that evaluation should be made available to the Responsible Minister.

15.16. The Board Chair is responsible for putting in place mechanisms for annual evaluation of the performance of the non-executive board members, taking into account the views of relevant stakeholders including the MOD Sponsor. The outcome of those evaluations should be made available to the Department.

15.17. The Board should ensure that effective arrangements are in place to provide assurance on risk management, governance, and internal control.

15.18. The Board should make a strategic choice about the style, shape and quality of risk management and should lead the assessment and management of opportunity and risk. The Board should ensure that effective arrangements are in place to provide assurance over the design and operation of risk management, governance, and internal control in line with the Management of Risk – Principles and Concepts (The Orange Book). The Board must set up an Audit and Risk Assurance Committee chaired by an independent and appropriately qualified non-executive member to provide independent advice and ensure that the Department’s Audit and Risk Assurance Committee are provided with routine assurances, with escalation of any significant limitations or concerns. The Board is expected to assure itself of the adequacy and effectiveness of the risk management framework and the operation of internal control.

16. The Chair’s role and responsibilities

16.1. The Chair is responsible for leading the Board in the delivery of its responsibilities. Such responsibility should be exercised in the light of their duties and responsibilities as set out in the Chairperson’s contract of engagement, any appointment letter, the statutory authority governing the SSRO, this document, and the documents and guidance referred to within this document.

16.2. Communications between the SSRO’s Board and the Responsible Minister should normally be through the Chair.

16.3. The Chair is bound by the Code of Conduct for Board Members of Public Bodies⁵, which covers conduct in the role and includes the Nolan Principles of Public Life⁶.

16.4. In addition, the Chair is responsible for ensuring that:

- the monitoring and engaging with appropriate governance arrangements on the SSRO’s affairs is conducted with probity.
- policies and actions support the Responsible Minister’s (and where relevant other Ministers’) wider strategic policies and where appropriate, these policies and actions should be clearly communicated and disseminated throughout the SSRO.

16.5. The Chair has the following leadership responsibilities:

- formulating the Board’s strategy;
- ensuring that the Board, in reaching decisions, takes proper account of guidance provided by the Responsible Minister or the Department;
- acting as a sounding board for the Chief Executive;
- representing the SSRO in discussions with Ministers;

⁵ [Code of conduct for board members of public bodies - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

⁶ <https://www.gov.uk/government/publications/the-7-principles-of-public-life>

- promoting the efficient and effective use of staff and other resources;
- delivering high standards of regularity and propriety; and
- representing the views of the Board to the general public, as well as to Government and industry stakeholders.

16.6. The Chair also has an obligation to ensure that:

- the work of the Board and its members are reviewed and are working effectively including ongoing assessment of the performance of individual Board members with a formal annual evaluation and more in-depth assessments of the performance of individual Board members when being considered for reappointment;
- when conducting assessments that the view of relevant stakeholders including employees and the Sponsorship team are sought and considered;
- the Board and SSRO has the identified balance of skills and expertise appropriate to direct and carry-out its statutory functions, whilst taking account of MOD's policy and objectives;
- all directors including the Chair and Chief Executive continually update their skills, knowledge, and familiarity with the SSRO's current work to fulfil their role both on the Board and committees. This will include, but is not limited to, skills and training in relation to financial management and reporting requirements, risk management, and the requirements of Board membership within the public sector;
- Board members are fully briefed on terms of appointment, duties, rights and responsibilities;
- they, together with the other Board members, receive appropriate training on financial management and reporting requirements and on any differences that may exist between private and public sector practice;
- the Responsible Minister and Senior Sponsor are advised of SSRO's needs when Board vacancies arise;
- there is a Board Operating Framework in place setting out the role and responsibilities of the Board consistent with the Government Code of Good Practice for Corporate Governance;
- there is a code of practice for Board members in place, consistent with the Cabinet Office Code of Conduct for Board Members of Public Bodies;
- that the Board, in reaching decisions, takes into account the policy and resource objectives of the MOD.

17. Individual Board members' responsibilities

17.1. Individual Board members should:

- comply at all times with the Code of Conduct for Board Members of Public Bodies, which covers conduct in the role and includes the Nolan Principles of Public Life as well as rules relating to the use of public funds and to conflicts of interest;
- demonstrate adherence to the 12 Principles of Governance for all Public Body Non-Executive Directors as appropriate⁷;
- not misuse information gained in the course of their public service for personal gain or for political profit, nor seek to use the opportunity of public service to promote their private interests or those of connected persons or organisations;
- comply with the Board’s rules on the acceptance of gifts and hospitality, and of business appointments;
- act in good faith and in the best interests of the SSRO;
- ensure they are familiar with any applicable guidance on the role of Public Sector non-executive directors and Boards that may be issued from time to time by the Cabinet Office, HM Treasury or wider government.

⁷ <https://www.gov.uk/government/publications/public-bodies-non-executive-director-principles/12-principles-of-governance-for-all-public-body-neds>

Management and financial responsibilities and controls

18. Financial Framework

- 18.1. The Financial Framework at Annex B sets out the arrangement between the MOD and SSRO on the conditions governing payment and expenditures related to the Grant in Aid (GIA) made by the MOD to the SSRO.

19. Delegated authorities

- 19.1. The SSRO's delegated authorities are set out in the letter of authority. This delegation letter may be updated and superseded by later versions which may be issued by the MOD in agreement with HM Treasury, or updated for changes in Government Spending Controls.
- 19.2. In line with Managing Public Money Annex 2.2, these delegations will be reviewed on an annual basis.
- 19.3. The SSRO shall obtain the MOD's and where appropriate HM Treasury's prior written approval before:
- entering into any undertaking to incur any expenditure that falls outside the delegations or which is not provided for in the SSRO's annual budget as approved by MOD;
 - incurring expenditure for any purpose that is or might be considered novel or contentious, or which has or could have significant future cost implications;
 - making any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by MOD;
 - making any change of policy or practice which has wider financial implications that might prove repercussive or which might significantly affect the future level of resources required; or
 - carrying out policies that go against the principles, rules, guidance and advice in Managing Public Money.

20. Spending authority

- 20.1. Once the budget has been approved by the MOD and subject to any restrictions imposed by statute, the SSRO shall have authority to incur expenditure approved in the budget without further reference to the Sponsor Department, on the following conditions:
- the SSRO shall comply with the delegations set out in the letter of authority. These delegations shall not be altered without the prior agreement of the Sponsor Department and as agreed by HM Treasury and Cabinet Office as appropriate;
 - the SSRO shall comply with Managing Public Money regarding novel, contentious or repercussive proposals;
 - inclusion of any planned and approved expenditure in the budget shall not remove the need to seek formal Departmental approval where any proposed expenditure is outside the delegated limits or is for new schemes not previously agreed;

- the SSRO shall provide the MOD with such information about its operations, performance, individual projects or other expenditure as the Department may reasonably require.

21. Banking and Managing Cash

- 21.1. The SSRO must maximise the use of publicly procured banking services (accounts with central government commercial banks managed centrally by Government Banking).
- 21.2. The SSRO should only hold money outside Government Banking Service accounts where a good business case can be made for doing so and HM Treasury consent is required for each account to be established. Only commercial banks which are members of relevant UK clearing bodies may be considered for this purpose.
- 21.3. Commercial Accounts where approved should be operated in line with the principles as set out in Managing Public Money.
- 21.4. The Accounting Officer is responsible for ensuring the SSRO has a Banking Policy as set out in Managing Public Money and ensuring that policy is complied with.

22. Procurement

- 22.1. The SSRO shall ensure that its procurement policies are aligned with and comply with any relevant UK or other international procurement rules and in particular the Public Contracts Regulations 2015.
- 22.2. The SSRO shall establish its procurement policies and document these in a Procurement Policy and Procedures Manual.
- 22.3. In procurement cases where the SSRO is likely to exceed its delegated authority limit, procurement strategy approval for the specific planned purchase must be sought from the Department's Sponsor team.
- 22.4. Goods, services, and works should be acquired by competition. Proposals to let single-tender or restricted contracts shall be limited and exceptional, and a quarterly report explaining those exceptions should be sent to the Department.
- 22.5. Procurement by the SSRO of works, equipment, goods, and services shall be based on a full option appraisal and value for money (VfM), i.e. the optimum combination and whole life costs and quality (fitness for purpose).
- 22.6. The SSRO shall a) engage fully with Department and Government wide procurement initiatives that seek to achieve VfM from collaborative projects, b) comply with all relevant Procurement Policy Notes issued by Cabinet Office and c) co-operate fully with initiatives to improve the availability of procurement data to facilitate the achievement of VfM.

22.7. The SSRO shall comply with the Commercial⁸ and Grants Standards⁹. These standards apply to the planning, delivery, and management of government commercial activity, including management of grants in all Departments and arm's length bodies, regardless of commercial approach used and form part of a suite of functional standards that set expectations for management within government.

23. Risk management

23.1. The SSRO shall ensure that the risks that it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance, and develop a risk management strategy, in accordance with the Treasury guidance Management of Risk: Principles and Concepts¹⁰.

24. Counter Fraud and Theft

24.1. The SSRO shall adopt and implement policies and practices to safeguard itself against fraud and theft.

24.2. The SSRO should act in line with guidance as issued by the Counter Fraud Function and in compliance with the procedures and considerations as set in in Managing Public Money Annex 4.9 and the Counter Fraud Functional Standard¹¹. It should also take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter a contract or to provide grant or grant-in-aid.

24.3. The SSRO should keep records of and prepare and forward to the Department an annual report on fraud and theft suffered by the SSRO and notify the Sponsor Department of any unusual or major incidents as soon as possible. The SSRO should also report detected loss from fraud, bribery, corruption and error, alongside associated recoveries and prevented losses, to the counter fraud centre of expertise in line with the agreed government definitions as set out in Counter Fraud Functional Standard.

25. SSRO Staff

Broad responsibilities for staff

25.1. Within the arrangements approved by the Responsible Minister and the Treasury, the SSRO will have responsibility for the recruitment, retention and motivation of its staff as set out in the SSRO's Corporate Governance Framework. The broad responsibilities toward its staff are to ensure that:

- the rules for recruitment and management of staff create an inclusive culture in which diversity is fully valued; appointment and advancement is based on merit: there is no discrimination on grounds of gender, marital status, sexual orientation, race, colour, ethnic or national origin, religion, disability, community background or age;

⁸ <https://www.gov.uk/government/publications/commercial-operating-standards-for-government>

⁹ <https://www.gov.uk/government/publications/grants-standards>

¹⁰ http://www.hm-treasury.gov.uk/orange_book.htm

¹¹ <https://www.gov.uk/government/publications/government-functional-standard-govs-013-counter-fraud>

- the level and structure of its staffing, including grading and staff numbers, are appropriate to its functions and the requirements of economy, efficiency and effectiveness;
- the performance of its staff at all levels is satisfactorily appraised and the SSRO performance measurement systems are reviewed from time to time;
- its staff are encouraged to acquire the appropriate professional, management, and other expertise necessary to achieve the SSRO's objectives;
- proper consultation with staff takes place on key issues affecting them;
- adequate grievance and disciplinary procedures are in place;
- whistle-blowing procedures consistent with the Public Interest Disclosure Act are in place;
- a code of conduct for staff is in place based on the Cabinet Office's Model Code for Staff of Executive Non-departmental Public Bodies¹².

Staff costs

25.2. Subject to its delegated authorities, the SSRO shall ensure that the creation of any additional posts does not incur forward commitments that will exceed its ability to pay for them.

Pay and conditions of service

25.3. The SSRO's staff are subject to levels of remuneration and terms and conditions of service (including pensions) conferred within Sch.4 s.7(3) of the Act.

25.4. Payment shall be made in accordance with the annual Civil Service Pay Remit Guidance, except where prior approval has been given by the Department to vary such rates.

25.5. Staff terms and conditions should be set out in an Employee Handbook, which should be provided to the Department together with subsequent amendments.

25.6. The SSRO shall abide by public sector pay controls, including the relevant approvals process dependent on the organisations classification as detailed in the Senior Pay Guidance¹³ and the public sector pay and terms guidance¹⁴.

25.7. The SSRO shall operate a performance-related pay scheme that shall form part of the annual aggregate pay budget approved by the Department or the general pay structure approved by the Department and the Treasury, whichever is applicable, and where relevant with due regard to the senior pay guidance.

25.8. The travel expenses of Board members shall be tied to the rates allowed to staff of the SSRO. Reasonable actual costs shall be reimbursed.

¹²https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80082/PublicBodiesGuide2006_5_public_body_staffv2_0.pdf

¹³<https://www.gov.uk/government/publications/senior-civil-service-pay-and-reward>

¹⁴<https://www.gov.uk/government/publications/public-sector-pay-and-terms-guidance-note>

Pensions, redundancy and compensation

- 25.9. Compensation scheme rules and pension scheme rules should reflect legislative and HM Treasury guidance requirements regarding exit payments.
- 25.10. SSRO staff shall normally be eligible for a pension provided by the Civil Service Pension Scheme. Staff may opt out of the occupational pension scheme provided by the SSRO, but the employers' contribution to any personal pension arrangement, including stakeholder pension, shall normally be limited to the national insurance rebate level.
- 25.11. Any proposal by the SSRO to move from the existing pension arrangements, or to pay any redundancy or compensation for loss of office, requires the prior approval of the Department. Proposals on severance must comply with the rules in chapter 4 of Managing Public Money.
- 25.12. Details relating specifically to suspension from office are in Schedule 4 of the Act.

Corporate Plans, Business Plans, Financial Reporting and Management information

26. Corporate and business plans

26.1. By April each year the SSRO shall submit to the Sponsor Department a draft of the corporate plan covering three years ahead for agreement. The SSRO shall agree with the Department the issues to be addressed in the plan and the timetable for its preparation. The plan shall reflect the SSRO's statutory and/or other duties and, within those duties, the priorities set from time to time by the Sponsor on behalf of the Responsible Minister, set out in the annual Chair's letter (including decisions taken on policy and resources in the light of wider public expenditure decisions). The plan shall demonstrate how the SSRO contributes to the achievement of the MOD's medium-term plan and priorities and aligned performance metrics and milestones.

26.2. The first year of the corporate plan, amplified as necessary, shall form the business plan. The business plan shall be updated annually to include key targets and milestones for the year immediately ahead and shall be linked to budgeting information so that resources allocated to achieve specific objectives can readily be identified by the Department. Subject to any commercial considerations, a digest of the corporate and business plans should be published by the SSRO on its website and separately be made available to staff.

26.3. The following key matters should be included in the plans:

- A vision statement with key objectives and associated key performance targets for the forward years, and the strategy for achieving those objectives;
- key non-financial performance targets;
- a review of performance in the preceding financial year, together with comparable outturns for the previous 3-5 years, and an estimate of performance in the current year;
- alternative scenarios and an assessment of the risk factors that may significantly affect the execution of the plan but that cannot be accurately forecast; and
- other matters as agreed between the MOD and the SSRO.

27. Budgeting procedures

27.1. Each year, in the light of decisions by MOD on the updated draft corporate plan, the Department will send to the SSRO no later than 31 March (dependent on overall MOD process):

- a formal statement of the annual budgetary provision allocated by the Department in the light of competing priorities across the Department and of any forecast income approved by the Department; and
- a statement of any planned change in policies affecting the SSRO.

27.2. The approved annual business plan will take account both of approved funding provision and any forecast income and will include a budget of estimated expenditure and income together with a profile of expected draw-down of the

Departmental funding and/or other income over the year. These elements form part of the approved business plan for the year in question.

- 27.3. SSRO shall provide submissions aligned to MOD's 10-year Annual Budgeting Cycle (ABC) processes to enable SSRO's planned costs as well as financial risks and issues to be given due consideration alongside other MOD and Head Office priorities.

28. Grant-in-aid and any ring-fenced grants

- 28.1. Any Grant-in-Aid provided by the Department for the year in question will be voted in MOD's Supply Estimate and be subject to Parliamentary control.

- 28.2. The grant-in-aid will normally be paid in quarterly instalments on the basis of written applications showing evidence of need. The SSRO will comply with the general principle that there is no payment in advance of need. Cash balances accumulated during the course of the year from grant-in-aid or other Exchequer funds shall be kept to a minimum level consistent with the efficient operation of the ALB. Grant-in-aid not drawn down by the end of the financial year shall lapse. Subject to approval by Parliament of the relevant Estimates provision, where Grant-in-Aid is delayed to avoid excess cash balances at the year-end, the Department will make available in the next financial year any such grant-in-aid that is required to meet any liabilities at the year end, such as creditors.

- 28.3. In the event that the Department provides the SSRO separate grants for specific (ring-fenced) purposes, it would issue the grant as and when the SSRO needs it on the basis of a written request. The SSRO would provide evidence that the grant was used for the purposes authorised by the Department. The SSRO shall not have uncommitted grant funds in hand, nor carry grant funds over to another financial year.

29. Annual report and accounts

- 29.1. The SSRO Board must publish an annual report of its activities together with its audited accounts after the end of each financial year. The SSRO shall provide the Department its finalised (audited) accounts by July each year in order for the accounts to be consolidated within the MOD's accounts. A draft of the report should be submitted to the Department six weeks before the proposed publication date. The accounts should be prepared in accordance with the relevant statutes and specific accounts direction issued by the Department as well as the Treasury's Financial Reporting Manual (FRM).

- 29.2. The annual report must:

- cover any corporate, subsidiary or joint ventures under the SSRO's control;
- comply with the FRM and in particular have regard to the illustrative statements for an NDPB¹⁵;

¹⁵ <https://www.gov.uk/government/publications/government-financial-reporting-manual-2020-21>. 30

- outline main activities and performance during the previous financial year and set out in summary form forward plans.

29.3. Information on performance against key financial targets is within the scope of the audit and should be included in the notes to the accounts. The report and accounts shall be laid in Parliament and made available on the SSRO's website, in accordance with the guidance in the FReM.

30. Reporting performance to the Department

30.1. The SSRO shall operate management, information and accounting systems that enable it to review in a timely and effective manner its financial and non-financial performance against the budgets and targets set out in the corporate and business plans.

30.2. The SSRO shall inform the MOD of any changes that make achievement of objectives more or less difficult. It shall report financial and non-financial performance, including performance in helping to deliver Ministers' policies, and the achievement of key objectives regularly through Performance and Risk Reviews, led by the Sponsor at least three times per year. These will cover the following topics (not exhaustive), supporting details and evidence of which must be submitted in advance to the Sponsor by the Chief Executive:

- performance update against the SSRO Corporate Plan and Annual Business Plan;
- SSRO financial performance;
- High-level risks or matters of concern to the Chief Executive, Chair or Board.

30.3. The Responsible Minister will meet the Chair once a year.

30.4. The Principal Accounting officer, or their representative, will meet the Chief Executive at least once a year.

31. Information Sharing

31.1. The MOD has the right of access to all SSRO records and personnel for any purpose including, for example, sponsorship audits and operational investigations.

31.2. The SSRO shall provide the MOD with such information about its operations, performance, individual projects or other expenditure as the Sponsor department may reasonably require; except information that would interfere in the SSRO's ability to carry out its statutory functions in an independent and impartial manner, and, or is contrary to law.

31.3. The MOD and HM Treasury may request the sharing of data held by the SSRO in such a manner as set out in central guidance except insofar as it is prohibited by law. This may include requiring the appointment of a senior official to be responsible for the data sharing relationship.

31.4. As a minimum, the SSRO shall provide the MOD with information monthly that will enable the Department satisfactorily to monitor:

- the SSRO's cash management;
- its draw-down of Grant-in-Aid;
- forecast outturn by resource headings;
- other data required for the Online System for Central Accounting and Reporting (OSCAR); and
- data as required in respect of its compliance with any Cabinet Office Controls pipelines or required in order to meet any condition as set out in any settlement letter.

Audit

32. Internal audit

32.1. The SSRO shall:

- maintain arrangements for internal audit;
- ensure that any arrangements for internal audit are in accordance with the Public Sector Internal Audit Standards (PSIAS) as adopted by HM Treasury¹⁶;
- ensure the Sponsor Department is satisfied with the competence and qualifications of the Head of Internal Audit and the requirements for approving appointments in accordance with PSIAS;
- ensure the audit committee of its Board is in accordance with the Code of Good Practice for Corporate Governance and the Audit and Risk Assurance Committee Handbook, or be represented on the Ministry of Defence's Audit Committee;
- forward the audit strategy, periodic audit plans and annual audit report, including the SSRO Head of Internal Audit opinion on risk management, control and governance as soon as possible to the Sponsor Department;
- keep records of and prepare and forward to the Department an annual report on fraud and theft suffered by the SSRO and notify the Sponsor Department of any unusual or major incidents as soon as possible; and
- will share with the MOD information identified during the audit process and the Annual Audit Opinion Report (together with any other outputs) at the end of the audit, in particular on issues impacting on the Department's responsibilities in relation to financial systems within the SSRO;

32.2. The SSRO Audit Committee will have responsibility for the independent review of the systems of internal control, risk management and of the external audit processes.

32.3. The SSRO's internal audit service has a right of access to all documents, including where the service is contracted out.

33. External audit

33.1. The Comptroller & Auditor General (C&AG) audits the SSRO's annual accounts. The C&AG passes the audited accounts to the Secretary of State who will lay the accounts together with the C&AG's report before parliament.

33.2. In the event that the SSRO has set up and controls subsidiary companies, the SSRO will in the light of the provisions in the Companies Act 2006, ensure that the C&AG has the option to be appointed auditor of those company subsidiaries that it controls and/or whose accounts are consolidated within its own accounts. The SSRO shall discuss with the Sponsor Department the procedures for appointing the C&AG as auditor of the companies.

33.3. The C&AG:

¹⁶ <https://www.gov.uk/government/publications/public-sector-internal-audit-standards>

- will consult the MOD and the SSRO on whom – the NAO or a commercial auditor – shall undertake the audit(s) on his behalf, though the final decision rests with the C&AG;
- has a statutory right of access to relevant documents, including by virtue of section 25(8) of the Government Resources and Accounts Act 2000, held by another party in receipt of payments or grants from the SSRO;
- will share with the MOD information identified during the audit process and the audit report (together with any other outputs) at the end of the audit, in particular on issues impacting on the Department's responsibilities in relation to financial systems within the SSRO;
- will consider requests from Departments and other relevant bodies to provide Regulatory Compliance Reports and other similar reports at the commencement of the audit. Consistent with the C&AG's independent status, the provision of such reports is entirely at the C&AG's discretion;

33.4. The C&AG may carry out examinations into the economy, efficiency and effectiveness with which the SSRO has used its resources in discharging its functions. For the purpose of these examinations the C&AG has statutory access to documents as provided for under section 8 of the National Audit Act 1983. In addition, the SSRO shall provide, in conditions to grants and contracts, for the C&AG to exercise such access to documents held by grant recipients and contractors and sub-contractors as may be required for these examinations; and shall use its best endeavours to secure access for the C&AG to any other documents required by the C&AG which are held by other bodies.

Reviews and winding up arrangements

34. Review of ALB's status

- 34.1. The SSRO will be reviewed every 5 years. The date of the next review will be in 2025.

35. Arrangements in the event that the SSRO is wound up

35.1. The Sponsor Department shall put in place arrangements to ensure the orderly winding up of the SSRO. In particular it should ensure that the assets and liabilities of the ALB are passed to any successor organisation and accounted for properly. (In the event that there is no successor organisation, the assets and liabilities should revert to the Sponsor Department.) The Secretary of State has sole statutory right to wind up the SSRO in its entirety. To this end, the MOD shall:

- have regard to Cabinet Office guidance on the winding up of ALBs¹⁷.
- ensure that procedures are in place in the SSRO to gain independent assurance on key transactions, financial commitments, cash flows and other information needed to handle the wind-up effectively and to maintain the momentum of work inherited by any residuary body; specify the basis for the valuation and accounting treatment of the SSRO's assets and liabilities;
- ensure that arrangements are in place to prepare closing accounts and pass to the C&AG for external audit, and that, for non-Crown bodies, funds are in place to pay for such audits. It shall be for the C&AG to lay the final accounts in Parliament, together with their report on the accounts;
- arrange for the most appropriate person to sign the closing accounts. In the event that another ALB takes on the role, responsibilities, assets and liabilities, the succeeding ALB Accounting Officer should sign the closing accounts. In the event that the Department inherits the role, responsibilities, assets and liabilities, the Sponsor Department's Accounting Officer should sign.

35.2. The SSRO shall provide the MOD with full details of all agreements where the SSRO or its successors have a right to share in the financial gains of developers. It should also pass to the MOD details of any other forms of claw-back due to the SSRO.

¹⁷https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/690952/Public_Bodies_-_a_guide_for_departments_-_chapter_10.pdf

Annexes

Annex A: Compliance with Government-wide and corporate guidance and instructions

SSRO shall comply with the following general guidance documents and instructions:

- this document;
- appropriate adaptations of sections of [Corporate Governance in Central Government Departments: Code of Good Practice](#);
- [Code of Conduct for Board Members of Public Bodies](#);
- [Code of Practice for Ministerial Appointments to Public Bodies](#);
- [Managing Public Money \(MPM\)](#);
- [Public Sector Internal Audit Standards](#);
- [Orange Book: Management of Risk: Principles and Concepts](#);
- [HM Treasury Guidance on Tackling Fraud](#);
- [Government Financial Reporting Manual \(FReM\)](#);
- Fees, Charges and Levies Guide, Chapter 6 of Managing Public Money;
- Banking and managing cash, annex 5.6 of Managing Public Money;
- [relevant Dear Accounting Officer letters](#);
- [The Parliamentary and Health Service Ombudsman's Principles of Good Administration](#);
- Consolidation Officer Memorandum, and relevant DCO letters;
- relevant Freedom of Information Act guidance and instructions (Ministry of Justice);
- other relevant guidance and instructions issued by the Treasury in respect of Whole of Government Accounts;
- other relevant instructions and guidance issued by the central Departments:
- specific instructions and guidance issued by the Ministry of Defence;
- recommendations made by the Public Accounts Committee, or by other Parliamentary authority, that have been accepted by the Government and relevant to SSRO

Introduction

1. This Financial Framework sets out an arrangement between the Ministry of Defence (MOD), Main Building, Whitehall, London, SW1A 2HB and the Single Source Regulations Office (SSRO) of Finlaison House, 15-17 Furnival Street, London, EC4A 1AB on the conditions governing payment and expenditure of the Grants in Aid (GIA) made by the MOD to the SSRO. This framework supports the Letter of Appointment to the Chief Executive (CE) of the SSRO as its Accounting Officer (AO) by the Permanent Secretary of MOD.
2. The SSRO is a Non-Departmental Public Body (NDPB) established under Part 2 of the Defence Reform Act 2014. This Act and the accompanying regulations set out the statutory duties of the SSRO.
3. The SSRO shall satisfy the requirements set out in this Financial Framework, together with the Framework Document which sets out the SSRO Chief Executive's responsibilities for accounting to Parliament including in the absence of specific exemptions from government policy applying to NDPBs, the requirement to act in accordance with the terms of the Framework Document, *Managing Public Money*, and other instructions and guidance issued from time to time by the Department, HM Treasury and Cabinet Office NDPBs including on matters concerning pay and expenses in line with the SSRO's agreed terms and conditions.

Object of the Grant In Aid (GIA)

4. This GIA is provided to the SSRO for the running costs of the NDPB, as detailed in the relevant planning round. The running costs may be used for any purpose apart from the following:
 - new-build capital projects
 - fund raising activities
 - investment for the purpose of generating additional funds
 - making loans, grants or gifts
 - development of business activities
5. The SSRO must not make any long-term financial commitments that might fall outside of the term of the GIA without prior approval from the MOD.

Relationship with MOD

6. Payment of the GIA is subject to the MOD being satisfied that the arrangements set out in this document will be put in place, except where some variation in these has been agreed between the parties in writing.

Approval of the GIA

7. The Financial management and approval process consists of four stages: -
 - The Annual Budget Cycle (ABC) process: This is the way by which MOD plans its budget for the next 10 years across the Department. MOD produces its own financial plans to inform the process and as part of that the SSRO will be required, by September of each year, to provide the MOD with a projection of funding likely to be required over the 10-year planning period. The MOD will agree with the SSRO a format for the projection of

funding. MOD will ensure this aligns to any applicable HMT Spending Review process that may be in train at the time.

- **Approval:** MOD will provide an indicative outline of the likely budget during the course of the ABC process and confirm the allocation for the immediate upcoming financial year no later than 31 March of the preceding year. This will be dependent on HMT and wider MOD process and/or budget uncertainty. Each Financial Year, MOD will provide the SSRO with an indicative budget for at least the following three years (it will not be approved at this stage so is indicative only).
- Separately, Parliamentary approval is required for Departments' budgets for the coming year. This is known as the Main Estimates process. At the start of each Financial Year, the MOD will send to the SSRO a formal statement of the GIA approved for that year.
- **Managing:** This is the In Year Management process, by which the MOD reviews its outputs and outcomes within the resources approved by Parliament. As part of this process the SSRO will be expected to provide the MOD with information quarterly (although ideally monthly) that will enable the Department to satisfactorily monitor:
 - the SSRO's cash management;
 - its draw-down of grant-in-aid;
 - forecast outturn by resource headings; and
 - other data required by HM Treasury to meet standardised reporting requirements.
- **Reviewing and Accounting:** Resource Accounts are published with Departmental Performance information, making the necessary link between resources consumed and outputs/outcomes. The "MOD Annual Report and Accounts" is available as a published document. In addition to producing and publishing its own Annual Report and Accounts, the SSRO will be expected to provide the financial information, to an agreed timetable, required to enable the MOD to meet its external reporting requirements. MOD will provide the required format to the SSRO.

Payment of GIA

8. GIA will be paid quarterly in advance into the SSRO's GBS bank account, on the basis of a written application from the SSRO showing evidence of the need (adhering to the guidance and general principles enshrined in Managing Public Money¹⁸). The application should be made at least one month prior to each quarterly draw down. The application shall certify that the conditions applying to the use of GIA have been observed to date and that further GIA is now required for the purposes appropriate to the SSRO functions as balances accumulated during the course of the year from GIA or other Exchequer funds shall be kept to a minimum level consistent with the efficient operation of the SSRO.

9. Should the SSRO forecast an excess of spending over budget it should make an early application for further funding for MOD's consideration.

10. Any GIA not drawn down by the end of the Financial Year shall lapse. Subject to approval by Parliament of the relevant Estimates provision, where GIA is delayed to avoid excess cash balances at the year end, the Department will make available in the next financial year any such GIA that is required to meet any liabilities at the year end.

Accountability

11. The MOD is accountable through its Principal Accounting Officer (the Permanent Secretary) to Parliament for the following:

- determination and payment of the GIA in accordance with the rules of Managing Public Money;

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/835558/Managing_Public_Money_MPM_with_annexes_2019.pdf

- the conditions attached to the GIA; and
- monitoring the SSRO's observance of the conditions.

The Role and Responsibilities of the Chief Executive (CE)

12. The CE is responsible to the SSRO Board for the proper conduct of the SSRO's business in accordance with the Defence Reform Act 2014. The CE as Accounting Officer will receive a letter of appointment from the Permanent Secretary setting out their responsibilities. Ultimately, the CE is personally responsible for safeguarding the public funds for which they have charge; for ensuring propriety and regularity in the handling of those public funds; and for the day-to-day operations and management of the SSRO. In addition, they should ensure that the SSRO as a whole is run on the basis of the standards, in terms of governance, decision making and financial management that are set out in Chapter 3, Managing Public Money.

The accountabilities include:

- the administration of and proper accounting for the GIA, so that all resources are used efficiently and effectively;
- the maintenance of adequate internal expenditure controls in relation to GIA funds;
- the provision of advice to the Board so that financial issues affecting GIA are considered fully at all stages in framing and reaching decisions and in their execution;
- observance of the conditions relating to the GIA;
- the maintenance of adequate systems of financial control to prevent theft or fraud in relation to GIA funds;
- the signature of the accounts and ensuring that proper records are kept relating to the accounts; and
- write-off of losses from GIA funds in accordance with Managing Public Money;
- and ensuring that the GIA is used only for the purposes detailed in this agreement and is not used for investment or speculation with the intent of generating additional income.

13. In the event that the CE receives instructions which they regard as conflicting with this framework in relation to the GIA, they should make appropriate written representation to the Chair of the SSRO with a copy sent to the MOD.

14. The CE may delegate day-to-day duties (with the exception of their personal authority to write off losses) to an executive Director of Finance or equivalent.

15. The responsibilities of the CE as accounting officer are detailed in Chapter 3 of Managing Public Money.

Financial Controls and Financial Authorities

16. The SSRO has the authority to transfer funds between cost headings without recourse to the MOD, provided that this does not breach the terms of paragraph 5 or result in any increase to the GIA agreed by the MOD.

17. In respect of the GIA, the SSRO will:

- maintain to the MOD's satisfaction an appropriate system of financial management;
- maintain adequate records, covering the last five financial years of payment and receipts made against the GIA to meet National Audit Office external audit needs (records should cover the number of years that the SSRO has been in existence where this number is less than five);
- ensure that the GIA is accounted for and managed separately from any other funds managed by the SSRO;

- maintain the minimum level of cash balances and reserves during the Financial Year consistent with the efficient conduct of business.

Novel, Contentious or Repercussive Proposals

18. As set out in the Framework Document, the SSRO shall obtain the consent of the SSRO Board and the approval of the MOD before:
 - incurring any expenditure for any purpose which is or might be considered novel or contentious, or which has or could have significant future cost implications, including on staff benefits;
 - making any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by the MOD;
 - making any change of policy or practice which has wider financial implications (e.g., because it might prove repercussive among public sector bodies) or which might significantly affect the future level of resources required.
19. Arrangements in relation to moving existing pension arrangements or to severance will be as set out in the Framework Document.

Lending: guarantees, indemnities, contingent liability, letters of comfort

20. The SSRO shall not, without MOD prior written consent, lend money, charge any asset or security, give any guarantee or indemnities or letters of comfort, or incur any other contingent liability, whether or not in a legally binding form.
21. Unless covered by a delegated authority, all proposals to make a grant or loan to a third party, whether one-off or under a scheme, shall be subject to prior approval by the MOD, together with the terms and conditions under which such grant or loan is made. If grants or loans are to be made under a continuing scheme, statutory authority is likely to be required.
22. The terms and conditions shall include a requirement on the receiving organisation to prepare accounts and to ensure that its books and records in relation to the grant or loan are readily available for inspection by the SSRO, the MOD and external audit.

Gifting

23. Proposals for making gifts or other special payments (including write offs) must have the prior approval of the SSRO Board and the MOD.
24. The Framework Document requires the SSRO Board members to comply with the Cabinet Office's Code of Conduct for Board Members of Public Bodies and comply with the rules the Board chooses to adopt around the acceptance of gifts.

Subsidiary companies and joint ventures

25. The SSRO shall not establish subsidiary companies or joint ventures without the express approval of the MOD. In judging such proposals the MOD will have regard to the MOD's wider strategic objectives.

Competition

26. Contracts shall be placed on a competitive basis and tenders accepted from suppliers who provide best value for money overall where competition exists.

27. Procurement by the SSRO of works, equipment, goods and services shall be based on value for money i.e., quality (in terms of fitness for purpose) and delivery against price (in accordance with Managing Public Money). Where appropriate, a full option appraisal shall be carried out before procurement decisions are taken.

The Planning Framework / Annual Budget Cycle

28. By September each year the SSRO will provide the MOD with a projection of the expenditure to be met from GIA in the coming financial year, together with any receipts (if applicable) and an outline projection of the funding likely to be required over the subsequent nine years. The MOD will agree with the SSRO a format for the projection that will contain sufficient detail to enable to the MOD to fulfil the requirements of public accountability.

29. In addition, the SSRO will provide information on how it plans to utilise the GIA funding. This should be via the Corporate Plan as approved by the SSRO Board.

30. Payments and receipts shall be closely monitored by the SSRO at all times during the financial year so that timely action can be taken to ensure that the cash limit of the GIA is not exceeded. The MOD is to be advised immediately if any overspend or underspend of the approved GIA is forecast so that appropriate action can be taken.

31. Once the SSRO's budget has been approved by the MOD and subject to any restrictions imposed by this document and the Framework Document, the SSRO shall have the authority to incur expenditure approved in the budget without further reference to the MOD.

32. MOD is prepared to consider additional proposals as part of the Annual Budget Cycle and relevant business cases should be prepared in line with HMT five-case model policy and guidance, and also be subject to MOD policy and process (relevant Joint Service Procedures can be provided that cover this). Proposals should include identification of potential offsets or reprioritisation that could be undertaken to fund the proposal.

Insurance and Indemnities

33. The Government has indicated that an individual Board member who has acted honestly and in good faith will not have to meet out of their personal resources any personal civil liability which is incurred in the execution or the purported execution of their Board function, save where the Board member has acted recklessly, and these liability arrangements will apply to SSRO Board members.

34. A study will be carried out to determine the SSRO's insurance requirements and appropriate cover will be in place.

Management and Disposal of Assets

35. The SSRO is accountable to the MOD for the safe keeping of all assets obtained through the GIA, including the maintenance of inventories or other records, as agreed with the MOD.

36. The SSRO shall dispose of assets that are surplus to its requirements. Assets shall be sold for best price, taking into account any costs of the sale. High value assets shall be sold by auction or competitive tender unless otherwise agreed by the MOD and be conducted in accordance with Managing Public Money guidance.

37. The SSRO may normally retain receipts derived from the sale of assets provided that:

- the MOD and the Treasury are content for the SSRO to retain these receipts;
- they are used to finance other capital spending;
- the MOD receives prior notification of individual sales; and

- total sales in any financial year do not exceed a limit specified by the MOD, normally 3% of the SSRO's GIA.

38. If, notwithstanding the above, the SSRO disposes of assets that have been purchased, improved or developed with Exchequer funds and the receipts amount to more than £1 million, or where the disposal has unusual features that Parliament should be aware, Parliamentary approval shall be secured for the receipts to be reinvested. The receipts shall therefore be surrendered to the MOD, which shall then submit an Estimate seeking approval for the receipts to be appropriated in aid by the MOD and for a corresponding increase in the SSRO's GIA. If the proposed new investment exceeds the SSRO's relevant delegated authority the MOD's approval will be needed. If the proposed new investment is novel or contentious, the Treasury's approval will be also needed.

Accounting Arrangements

39. In accordance with the Defence Reform Act 2014, (Schedule 4, paragraphs 12 and 13), the SSRO must produce an Annual Report and Accounts. The accounts shall be prepared in accordance with the Government Resources and Accounts Act 2000, the Government Financial Reporting Manual (FRoM) and other instructions issued by HM Treasury. The SSRO shall provide the MOD with a copy of its finalised annual audited accounts at an agreed date each year, in addition to any management information as may be necessary to allow the MOD to discharge its responsibilities as set out in Paragraph 11 of this document.

40. The Accounts review the operations of the SSRO in the year to which they relate and provide details of financial performance. The accounts are to be audited and published in Parliament before the Summer Recess.

Audit

41. In accordance with the Framework Document, the SSRO will take steps to ensure that effective internal and external audit arrangements are established. The SSRO will use the government's cross Departmental internal audit service to provide internal audit.

Duration

42. This Financial Framework document will be reviewed at the same time as the Framework Document for the SSRO.

43. The Treasury will be consulted on any significant variation proposed to this Financial Framework and the associated management statement.

Compliance

44. In addition to the Framework Document and this Financial Framework, the SSRO must adhere to the following general guidance documents and comply with the guidance set out in them¹⁹:

- Managing Public Money, issued by HM Treasury;
- Public Bodies — A guide for Departments — Gov.uk, issued by the Cabinet Office;
- Public Sector Internal Audit Standards, issued by the Cabinet Office;
- Guidance on reviews of non-departmental public bodies, issued by the Cabinet Office; and
- HM Treasury Orange Book

¹⁹ HM Treasury documents can be found at <https://www.gov.uk/search/guidance-and-regulation?organisations%5B%5D=hm-treasury&parent=hm-treasury>

The above is not an exhaustive list of governance documents and the SSRO should ensure that it keeps up to date with the latest guidance and instructions which will impact on their financial management.