

Opening letter from Chair, Jeremy Newman



Dear Stakeholders

Welcome to our first newsletter.


The SSRO continues to evolve week by week into a functioning organisation. It feels like the right time to share with you the latest news on our developments, including introducing our Board, our governance arrangements, and our plans and priorities for the coming months.

I have enjoyed meeting many defence contractors in individual meetings, at SSPR Senior Forum meetings and at the Defence and Security Commercial Council. The SSRO is in listening mode as we develop our approach to our statutory functions as the regulator of the single source procurement framework. We have a good deal of work to do and we are keen to get going, but we are still very much in the infancy stage of our existence.

Our Board is developing its thoughts on stakeholder management from the strategic to the operational and we hope to share these with you in the New Year. In this newsletter, we outline our approach to our first tasks on baseline profit rate and allowable costs, as well as our developing thinking on the collection, storage and analysis of industry data.

We hope you find this newsletter useful. I encourage as much dialogue as possible, so please get in touch if you wish to discuss our plans and priorities.

With warm wishes,

Yours,


Jeremy

The Board

Our Non-executives are appointed by the Secretary of State for Defence. The Board independently oversees the SSRO's work. Our Board members come from a range of backgrounds and all have relevant experience. The Board will also include the Chief Executive and Director of Corporate Resources, when appointed.



Jane Attwood

Jane was appointed as a NED of the SSRO in September 2014. She is the Chair of the SSRO's Regulatory Review Committee and a member of the Audit Committee. Jane is currently Commercial and Development Director – JTIP at Protection Group International; she is a Member of the Advisory Council at the Royal United Services Institute and Member of the Defence and Security Committee at the London Chamber of Commerce. She was previously Group Fraud Prevention Director at Lloyd's Banking Group (2011–2013) following six years at SOCA as Deputy Director, Prevention and Alerts. From 1999 to 2005 Jane held the post of Vice President, Market Development at BAE Systems following an earlier career in HM Diplomatic Service.



Marta Phillips

Marta was appointed as a NED of the SSRO in September 2014. She is the Chair of the SSRO's Audit Committee. Marta is also currently a Member of the Council at the Institute of Chartered Accountants of Scotland, an Independent

Member of the Audit and Risk Committee at the Association of Accounting Technicians and a Member of the Board of Governors at Ravensbourne. Her most recent executive role was as Chief Executive of the Pensions Advisory Service (2010–2013) following eleven years at the National Lottery Commission where she was subsequently Director of Compliance. She was previously Head of Finance, European Social Fund at the Department for Education and Skills (1993–1999) following earlier roles at HSBC, The Stock Exchange and Ernst and Young. Marta has served in various Board positions, including Chair at Veridian HA (2000–2007); and Audit Committee Chair and Executive Chair at Ujima Housing Association (2007).



Clive Tucker

Clive was appointed as a NED of the SSRO in September 2014. He is the Chair of the SSRO's Referrals Committee and a member of the Regulatory Review Committee. Clive is currently a director at strategic business

consultancy Pitch Partners Limited, a non-executive National Committee Member and audit committee chair at the Forestry Commission England and a non-executive steering board member and audit committee chair at the UK Space Agency. He was previously a solicitor and partner at Ashurst LLP, where he advised on major procurement projects and other commercial transactions (1994–2010).

Board Committee Structure

The Board has agreed to establish the following committees:

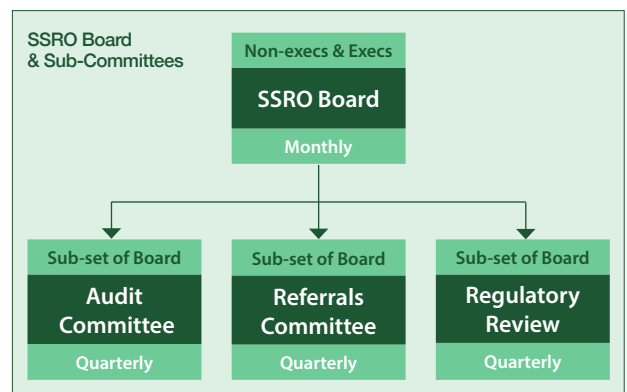
- an Audit Committee;
- a Regulatory Review Committee;
- a Referrals Committee, which may be established on a case by case basis; and
- an Executive Committee.

The Regulatory Review Committee will:

- review and prioritise change requests to the regulations;
- review feedback provided by primary users; and
- act as a project board for projects relating to:
 - the review of the Defence Reform Act;
 - the review of the single source contract regulations and statutory guidance; and
 - the formulation of the baseline contract profit rate and adjustments.

The Referrals Committee will consider all matters related to the following functions set out in the Defence Reform Act, as and when they arise:

- price adjustments;
- determinations about the contract profit rate;
- determinations about allowable costs;
- determinations about final price adjustments;
- determinations about the use of records;
- confidentiality obligations;
- determining whether a contract is a qualifying sub contract;
- whether the SSPR applies to sub-contracts;
- determinations on a penalty; and
- opinions and determinations.



Board meetings

Our approach to the publication of Board minutes

The SSRO's Corporate Governance Framework reserves the approval of the minutes of Board meetings to the Board alone. At each Board meeting, Members are asked to approve the minutes of the previous meeting as a correct record.

During the review period that follows the Board's approval of the minutes, the Board will consider whether any information should be withheld. Where this is the case, the exemption will be clearly indicated and explained in the published version of the minutes, and will be in accordance with one or more of the exemptions defined by the Freedom of Information Act.

To help ensure transparency and accountability, the SSRO will publish the actual Board minutes, and not a summary.

Our first Board agenda can be found below.

TIME	ITEM	TITLE	LEAD
13:00	–	Apologies, Announcements and Declarations of Interest	Chair
	1	Strategic introduction of the SSRO	Chair
	2	Statutory functions of the SSRO	Marcine Waterman
	3	Governance Issues	
		a) Framework Document	Marcine Waterman
		b) Corporate Governance Framework	Marcine Waterman
		c) Board and Committee structure	Marcine Waterman
		d) Internal Audit Service from December 2014	Marcine Waterman
	4	Organisational structure	
		a) SSRO organisation structure	Marcine Waterman
		b) Chief Executive recruitment	Chair
	5	Operational issues	
		a) Information Management strategy	Dan Coleby
		b) Freedom of Information procedure	Colin Sharples
	6	Guidance for Board members and staff	
		a) Code of Conduct for Board members	Marcine Waterman
		b) Staff terms and conditions	Marcine Waterman
	–	Any other business	–
17:00	–	Close of Meeting	–

The Board's next meeting is on 8 December 2014.

Executive Committee



Chief Executive Marcine Waterman (Interim Chief Executive)

Marcine was appointed as our Interim Chief Executive in September 2014. She currently leads the Audit Commission, making sure it efficiently and effectively applies its statutory audit regime for local public bodies, and monitors and manages the performance of the private audit firms providing audit services. Marcine ensures the Commission continues to fulfil its statutory audit functions; to carry out data matching through the National Fraud Initiative; and to publish a number of national briefings and tools.

Marcine has been involved in most of the Commission's key change programmes including data quality, fire modernisation verification, Best Value, and market testing. Marcine led the largest and most complex outsourcing procurement the Commission has been engaged in. Before joining the Audit Commission, Marcine worked at Ernst & Young, and was a Confidential Assistant in the US President's Office of Management and Budget, Legislative Affairs. She has a Masters degree in Public Finance and Administration from Washington's American University.

With the full support of the Board Marcine will continue as our interim CEO at least until June 2015, when our secondment arrangements with the Audit Commission will come to an end (as the Audit Commission will then cease to exist). This gives us continuity until the SSRO is fully established and we will review the position next year taking into account our needs at that time.

We have been very fortunate to secure Marcine's services, albeit on a part-time basis. She has experience as an Accounting Officer and as Chief Executive of an NDPB.

Executive Committee

The Board has approved the structure of the Executive Committee. It will include four posts:

- Chief Executive
- Director of Corporate Services
- Director of Regulation
- Director of Industry Analysis

We are currently recruiting the Director of Corporate Services and hope to make an appointment in December.

The SSRO will be a highly skilled organisation that will need flexibility in its recruitment and retention of employees whilst operating within the wider government controls on pay and expenses. The volume and flow of work is initially difficult to predict. In order to stay efficient, we are developing a structure that outsources its back office functions, and brings in specialist skills when necessary using a cost effective framework agreement. We will shortly commence the recruitment for the first phase of the development of the SSRO.

Key items on our agenda

The Defence Reform Act 2014 (the Act) and the draft Regulations are the basis for determining the SSRO's main priorities. The legal framework has three tiers – the Act, the Regulations, and statutory guidance. This can be summarised as:

- direct statutory duties that arise from the Act;
- opinions and determinations that arise from both the Act and the Regulations;
- statutory guidance – although the requirement to issue the guidance is not expressed as a duty, with the exception on guidance on allowable costs;
- SSRO governance;
- protected information; and
- application to sub-contracts.

The Single Source Procurement Regime will come into force once the Regulations have been approved in Parliament. Based on MOD's current expectations, this is likely to be in mid-December 2014, although the parliamentary timetable has not been confirmed. While the SSRO was commenced in July 2014 as an organisation, the SSRO is only empowered to undertake its full functions at this point.

Profit Rate

The SSRO is required to review the standard rates used to determine the profit rate for pricing single source contracts and to publish the review and make an annual recommendation to the Secretary of State on whether the rate should be adjusted. The SSRO must recommend the new rates to the SoS by 31 January 2015 in order for the SoS to issue the rates by 15 March 2015. This will be an annual requirement.

The Review Board for Government Contracts, the advisory NDPB, is responsible for recommending the contract profit rate for 2015 and will undertake this task as its last act before it is disbanded. Our Board considered how the SSRO should therefore discharge its responsibility at the same time as another body is charged with the same task.

Given the challenging timetable, our Board decided that the SSRO will rely on the work of the Review Board for Government Contracts. In order to do so, the SSRO must undertake the necessary due diligence and assurance about the methodology and approach applied, and will therefore shadow the Review Board during this year's processes.

Allowable Costs

The Board also agreed the way forward on our other primary function of publishing the statutory guidance on allowable costs for single source contracts. In order to inform the SSRO's work in formulating guidance, the Chair wrote to interested stakeholders within the defence industry and the MOD to seek views and examples about the characteristics and nature of costs that the SSRO should regard as appropriate, attributable and reasonable. We had a very good response from both industry and MOD.

The Board considered the responses and has agreed to publish its final guidance by the end of December 2014.

SSRO approach to the collection, storage, validation and analysis of industry data on QDCs

Under the Defence Reform Act 2014, Section 24(2)(d) and Regulations 22(9); the SSRO must publish statutory guidance on the Defined Pricing Structure including:

- defining the pricing structure, both costs and metrics;
- supporting definitions to the defined pricing structure;
- issuing report templates; and
- publishing guidance/explanation on the report templates.

In addition, under Section 36(3) of the Act, the SSRO must (if requested) analyse contract and supplier reports and provide those results.

In order to undertake this work, the SSRO has been considering the options available for the process, database and tools that will be required to receive, store and analyse the information for the above functions that will be received from industry.

Any such system will be complex to implement and operate in order to ensure the necessary functionality and security. Both the SSRO and the MOD would be users of this system.

It is very important the integrity of the data is maintained and that the management of this data is demonstrably independent from the MOD and from defence contractors and from any subsequent analysis performed by the MOD or the SSRO.

We held a workshop on 16 October with colleagues from the SSRO, MOD, ADS and defence industry representatives from BAE Systems and Rolls-Royce.

We explored whether a third party supplier could provide and operate with appropriate capability, the service of receiving and handling the data from industry and present an application to be used by the SSRO to analyse the data. We all concluded that an outsourced solution is better than any alternative, and would be able to provide this service securely.

The SSRO Board has also considered a number of approaches and options to SSRO data collection, storage and analysis and has decided to outsource the full service.

Our next steps will be to invite suppliers to tender to provide this service, select a supplier from the responses received to this invitation and commission that supplier to create the service, to be available from 1 April 2015. The initial service offering will be nascent as there will initially be a low volume of data collected in relation to Qualifying Defence Contracts, but we will seek to find a supplier who is capable of both providing the initial service and supporting its development.