



SSRO

Single Source
Regulations Office

Corporate Plan

2017-2020

Assuring value, building confidence



“We share the same aim as ALL our stakeholders - getting the right product at the right price and at the right time.”

George Jenkins, OBE, Chairman

We will build on our early work, and continue to help the MOD secure better value for money while ensuring that single source suppliers are paid a fair and reasonable price. We will deliver our statutory functions independently, professionally and authoritatively.

We share the same aim as all our stakeholders - getting the right product at the right price and at the right time. The single source procurement regime has the potential to deliver significant improvements, with any savings able to be reinvested elsewhere in defence. Over the next three years, we will focus on further developing our understanding of the overall price of goods and services and what a fair and reasonable price is for. The regime can help to foster a more efficient and productive defence industry, incentivised to manage risk effectively and control costs by innovating and so succeed in competing for exports. Our work will provide more certainty about non-competitive procurement; deliver greater clarity on what costs the MOD will meet; provide an independent view on costs and the legislation; and ultimately, create greater confidence in single source as a method of procurement.

We want to engage closely with the organisations in the sector and beyond, becoming the trusted go-to source for thought leadership and analysis on the issues that contribute to improved defence procurement. We are well placed and willing to provide useful information to the MOD including data analysis and benchmarking regarding a range of single source contracting issues such as contracting methods, direct and indirect costs, and profits.

To be an effective regulator, it is important to understand and engage with the industry being regulated. We will listen to the views of all our stakeholders and we will strengthen, build on and improve these relationships. By working together, we can deliver our aims and build a better platform for cooperation and delivery. We will continue our active programme of stakeholder engagement at all levels with the MOD and industry. We will meet regularly with defence companies, including SMEs, to ensure we continue to understand the impact of the regime on them. We will also work with other regulators and comparable international organisations to understand and share the lessons of effective regulation.

We will ensure good value for money through our own conduct, by being efficient and economic with our own resources.

Who we are

As the independent regulator of the UK government's non-competitive procurement of military goods, works and services, we regulate public spending on a large scale. Single source procurement is used for a variety of reasons including when:

- there is only a single contractor able to deliver the requirement;
- there are strong reasons for maintaining national sovereign capability;
- the required equipment or services have specialised or unique characteristics; or
- there are issues of national security.

Single source procurement represents around 55 per cent of new Ministry of Defence (MOD) contracts and the MOD spent approximately £9 billion on these contracts in 2015/16.

Our purpose

The Defence Reform Act 2014 sets two aims for the SSRO.

1 Good value for money for the taxpayer is obtained in government expenditure on qualifying defence contracts.

2 Persons who are parties to qualifying defence contracts are paid a fair and reasonable price under those contracts.

Our mission statement

A ssuring value
We provide assurance that the single source procurement regime is credible, transparent and provides value for money for the taxpayer in the absence of competition.

B uilding confidence
Our work builds confidence in non-competitive procurement, from:

Defence contractors. Who will receive clear guidance on Allowable Costs, a fair and reasonable price and an independent third-party view.

Our armed forces. Who are entitled to receive the operational capability they procure, on time and to budget.

Taxpayers. Who will benefit from appropriate transparency on costs and assurance that their money is being spent appropriately and effectively.

What we do

We fulfil our two statutory aims through several functions.

Review of the Legislation

We keep the Act and the Regulations under review, and every five years (starting in 2017) publish recommendations that the Secretary of State has regard to when deciding whether to alter the regulatory framework.

Opinions and determinations

Referrals to the SSRO can be made where parties to a contract seek clarity on how the regime should work in practice, or are unable to agree on an issue before or after a contract has been entered into.

Contract profit rate

We make an annual recommendation to the Secretary of State on the baseline profit rate, capital servicing rate and funding adjustment to be applied on Qualifying Defence Contracts in the following financial year.

Compliance

We keep under review the extent to which organisations are complying with their reporting requirements, and publish an annual report on the effectiveness of the regime.

Guidance

We issue guidance for the MOD and contractors on:

- the principles they must have regard to when determining whether costs are Allowable on a Qualifying Defence Contract;
- the baseline profit rate and adjustments used to determine the contract profit rate;
- the amount of a penalty that the Secretary of State can issue;
- reporting requirements, through our DefCARS system; and
- the Defined Pricing Structure, or cost breakdown, for different types of defence equipment.

Independent advice and analysis

We provide analysis and independent insights, to enable prices to be estimated, contracts negotiated and projects managed in a more informed and effective manner. Our studies programme facilitates improvements by highlighting examples of notable practice and behaviour, which benefit both the MOD and industry.

Our values in undertaking this work are that we should be:

Independent

We occupy an important space between government and industry, and we must continue to speak and operate freely if we are to be an effective regulator and achieve our statutory aims.

Transparent

The SSRO operates openly and transparently, and is proactive in engaging with our stakeholders and the public. We always ensure the confidentiality of sensitive information is protected.

Professional

Our staff have relevant skills and experience across a range of specialisms, and work effectively and professionally with each other and our stakeholders.

Authoritative

As a 'go-to' source of information and thinking on single source procurement, the SSRO will be authoritative in the delivery of its statutory functions.

Our objectives and KPIs

The SSRO will have an active programme of stakeholder engagement, meeting regularly with defence contractors and the MOD and undertaking opinions and determinations on request.

We will:

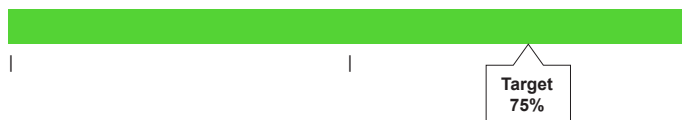
- Continue to engage proactively, by holding the SSRO Senior Stakeholder Forum and the Operational Working Group meetings, visit defence company facilities and have regular meetings with industry and the MOD.
- Raise awareness and understanding of our role and purpose, providing stakeholders with high quality, timely, clear and accurate information about our work.

Objective 1:

Have effective, fair and transparent engagement and adjudication with the MOD and industry

Key performance indicator

Proportion of stakeholders who consider the SSRO engages well



- Engage widely on our statutory documents. Work closely with the MOD and industry, as appropriate, on changes to policy, our major publications, and amending and updating our guidance, in order to meet the aims of the Defence Reform Act. We will use this engagement, including consultations and calls for input, as a way of obtaining views, experience and evidence to help us inform our work and deliver better outcomes. We will listen carefully to stakeholders' views, and communicate with a positive tone. We will publish all our consultations, along with our conclusions.
- Reach out to stakeholders beyond the MOD and industry, for example with comparable international organisations, other regulators, professional bodies, Parliamentarians, other government departments and non-departmental public bodies.
- Undertake an annual stakeholder survey.
- Consider and respond to all referrals made by the MOD and industry. We will provide clarity for the MOD and contractors, which will inform future contract negotiations and the application of the legislation. We will analyse and review the facts and evidence on which our referrals are based and will bring in external experts when they are required to contribute to the analysis. By doing so we will ensure our decisions are fair, evidence based and able to withstand scrutiny.

Key performance indicators

Final determinations issued within 5 months of acceptance and opinions conducted within 40 working days of acceptance



- Communicate the outcomes of referrals. Decisions and the reasons behind them will be published on the SSRO website (without any confidential information), will be highlighted in the Annual Report on the operation of the regime, and will be used to add to our statutory guidance. By doing so we will promote a greater understanding of the Act and Regulations.

Each year we recommend to the Secretary of State our assessment of the appropriate baseline profit rate, capital servicing rates and the SSRO funding adjustment. We issue statutory guidance for use by the MOD and defence companies. Taken together, our guidance forms a single point of reference for all stakeholders to establish whether their actions in relation to price control comply with the Act and Regulations.

We will:

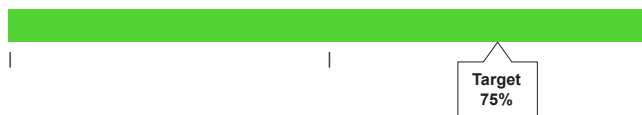
- Conduct an annual review of our statutory guidance on Allowable Costs, carrying out consultation, including workshops, in the spring/summer 2017. The guidance will remain principles, rather than rules, based and will provide greater clarity on areas identified by the MOD and industry. We expect to update the guidance in relation to: faulty workmanship and rework; the treatment of entertainment outside of costs that incur a profit; sales and marketing; impairment and amortisation; balance sheet items, including costs of finance; and new accounting standards.
- Better integrate our guidance on Allowable Costs and profit during 2017/18 to help stakeholders better understand the connectivity between these two elements of price control.
- Periodically evaluate and assess our current published guidance, to ensure that it is clear, remains fit for purpose and continues to reflect the expectations and interests of all parties subject to the Act.

Objective 2:

Issue authoritative and impartial rates and guidance

Key performance indicator

Proportion of stakeholders who believe the SSRO's guidance to be clear and applicable

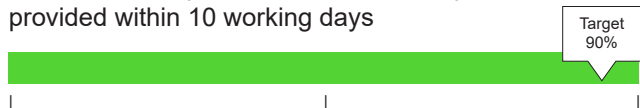


- Continue to evolve our reporting guidance based on the experience of users of the new DefCARS2 reporting system.
- Aim for consultation periods of eight weeks, with a minimum of six weeks, for all major written consultations on our guidance for major documents. This will allow our stakeholders adequate time to respond.
- Continue to work on what is meant by 'fair and reasonable' in the context of the baseline profit rate, through a mixture of analysis and consultation with stakeholders where appropriate.
- Calculate the baseline profit rate, capital servicing rates and SSRO funding adjustment and recommend them to the Secretary of State before 31 January each year. To do this, we will use our published methodology (Single source baseline profit and capital servicing rates methodology) as the basis for calculations. We will continue to maintain and apply the existing methodology throughout the period of this Corporate Plan.

- Publish SSRO Answers on a monthly basis. SSRO Answers is intended to supplement our statutory guidance by providing informal clarification on questions asked by stakeholders about aspects of the Framework.

Key performance indicator

Substantive responses to stakeholder questions provided within 10 working days



The SSRO will provide robust, timely and insightful analysis of the data it receives. This analysis will contribute to our studies, review of the regime and our guidance informing the MOD, industry and stakeholders, and leading to better defence procurement. It will also help the public to better understand the use of single source procurement by the MOD.

We will:

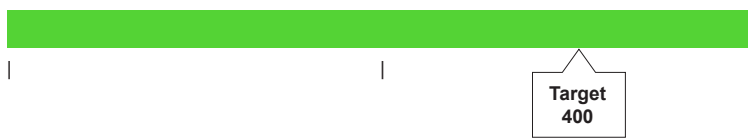
- Analyse the reports input by industry into the Defence Contracts Analysis and Reporting System (DefCARS 2). The analysis we produce will generate comparative management information, defence benchmarks and parametrics, which will become more rich and valuable over time. Our analysis will help the MOD and industry secure better contracts by, for example, providing valuable, accurate and insightful information on contract delivery.
- Undertake post-implementation refinement of DefCARS 2, and develop enhanced and more efficient data analytical capabilities.
- Consider procurement options and methods for the next stage of DefCARS in 2018.
- Ensure the security of all sensitive information provided to us by maintaining and regularly reviewing our procedures on the handling and storage of such information.
- Continue and devote increasing resources to our programme of studies, which will highlight value for money issues, potential savings, improvements in procurement and facilitate the sharing of best practice. It will also provide evidence to support the SSRO's other functions, including our work under Section 39 of the Act, which require us to keep Part 2 of the Act and the Regulations under review and to make recommendations of such changes we consider appropriate to the Secretary of State; any future opinions and/or determinations; and the issuing of statutory guidance.

Objective 3:

Establish reputation as a respected source of expertise in single source defence procurement

Key performance indicator

Number of website downloads of SSRO studies



The programme of studies will focus on the following topics but we expect that further topics will emerge from our engagement with the MOD, industry or other stakeholders:

- Risk in single source contracts – 2017/18. Risk, and how it is managed by defence companies and the MOD, can have a significant impact on the difference between estimated and actual costs. It is considering the different types of risk, for example programme risk and cost risks, and how these are treated, assessed and agreed in single source contracts, and how risk is rewarded through the profit rate mechanism (including for example in the cost risk adjustment and the incentive adjustment).
- Overhead rates used in delivery of single source contracts - 2017/18.
- Cost of the back office - 2017/18.

- The treatment of inflation in single source contracts - 2018/19.
- Procurement and contract management processes - 2018/19.
- Other subjects for consideration in more depth include: SMEs in the single source procurement regime, alternative pricing mechanisms and international comparisons on pricing.
- Exploit the data we collect and communicate key analytical findings to all interested parties. The SSRO's statistical bulletins bring a new insight (publicly available on our website) into different aspects of single source contracting in defence. These bulletins are designed to increase transparency around the regime and will be of use and interest to both the MOD and the defence industry.
- Build demand for our analysis, in the form of requests for data and our analysis from the MOD or industry. We will encourage the MOD to actively seek our analysis of the data that we hold. Similarly, we will welcome requests from industry to perform ad hoc analysis on its behalf (where this does not compromise confidentiality commitments to other contractors), as referred to in the Framework Document between the SSRO and MOD.
- Upon request, provide detailed analysis for the Secretary of State under Section 36 and Section 37 of the Act.

The SSRO keeps the Defence Reform Act and the Regulations under review, and must recommend changes to the Secretary of State by June 2017. It is also obliged to keep the regulatory framework and the extent to which organisations subject to reporting requirements are complying with them under review.

Objective 4:

Review and report on the operation of the regime and compliance with reporting obligations

We will:

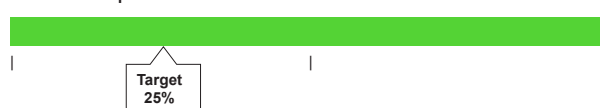
- Submit recommendations to the Secretary of State for changes to the operation of the regulatory framework by Friday 16 June 2017.
- Contribute to the Secretary of State's review of the framework from June – December 2017.
- Continually review the SSRO's strategic aims and statutory functions and whether we possess the tools and powers necessary to achieve them effectively and independently. We will undertake high quality analysis of the evidence and information we receive to identify how the framework is operating. We will consider the range of information available to the SSRO, including feedback from stakeholders, compliance monitoring, referrals and the protected disclosures we receive as a prescribed person under the Employment Rights Act 1996.
- Continually keep under review the extent to which organisations subject to reporting requirement are complying with them. This will require increasing resources as more companies and contracts come within regime as the percentage of eligible contracts within the regime increases to 99 per cent by 2020.

Key performance indicators

Proportion of contract reports submitted on time



Proportion of contract reports submitted accurately at first attempt



* The SSRO seeks to help improve the accuracy of submissions, and the proportion of contract reports submitted accurately at second or subsequent attempt is considerably higher than the c.12% currently at first submission. DefCARS will greatly aid contractors in meeting their reporting requirements.

- Produce an annual publication on the operation of the regime using our compliance and review methodology, which was published in January 2017.
- Provide technical support and assistance to the MOD and industry, including on-boarding for new contractors and a help desk, training in the new DefCARS2 system and extra assistance for SMEs so as to help drive improvements in the timeliness and quality of contract reports.
- Explore and share regulatory best practice across a broad range of sectors in the UK and single source procurement internationally. As part of this we will continue to be an active member of the UK Regulators Network.
- Hold a follow-on event on perspectives of single source procurement after the success of our first event held in partnership with RUSI in November 2016.

The success of the SSRO in meeting its statutory obligations depends on the quality of its Board and its staff. To operate effectively, the SSRO needs a team of high calibre individuals, with relevant skills and experience across a range of specialisms.

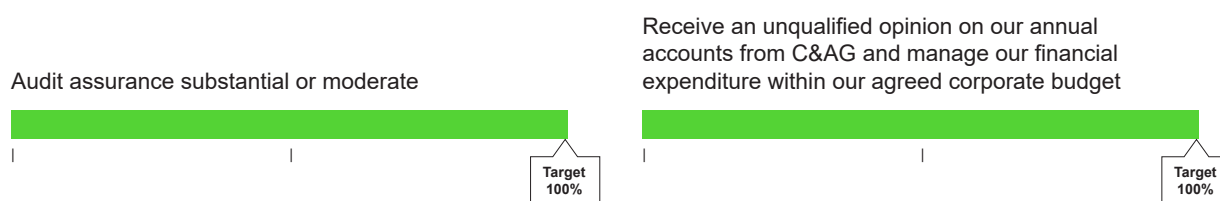
Objective 5:

Value and develop our people and information, and be financially responsible

We will:

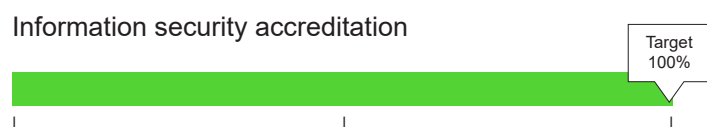
- Explore through our review of the legislation the mechanism by which costs are fully recovered from industry with the aim of ensuring the SSRO is funded on a sustainable basis. This is consistent with delivering our aims and statutory functions as an independent regulator and aligned with the funding models of other sector regulators. The SSRO is currently funded by grant-in-aid from the MOD, and from 2017 half of this will be recovered from industry through the SSRO funding adjustment.
- Maintain and improve the expertise and capacity of the Board, through timely recruitment and a tailored development programme.
- Ensure that the financial management and governance of the SSRO remains of the highest quality.

Key performance indicator



- Undertake appropriate IT maintenance and development, to ensure that our information is kept secure and that we fully utilise the technology available. Exploit the use of advances in available technology to improve efficiency. The SSRO achieved Cyber Essentials Plus in 2016 and it will seek to maintain this accreditation in 2017.

Key performance indicator

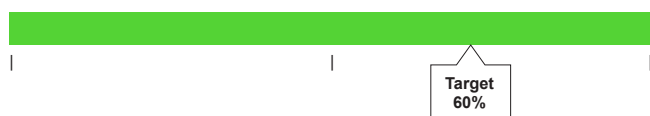


- Continuously review ways of working, to seek improvements in operations and efficiency. Regularly review staff numbers and the structure of the organisation, to address identified talent needs and ensure it is and will remain fit for purpose. As the government and industry fund us, it is important that we are run efficiently and that all expenditure is justified and results in public benefit.
- Ensure resilience and access to necessary expertise through the use of Crown Commercial Service framework contracts or the establishment of dedicated framework contracts for specialised support.

- Provide continuing professional development opportunities to staff, as part of an appropriate formal training and development strategy.
- Undertake an annual staff survey to assess employee engagement levels.
- Participate actively in the government's Tailored Review of the SSRO in 2018.

Key performance indicator

Employee engagement scores

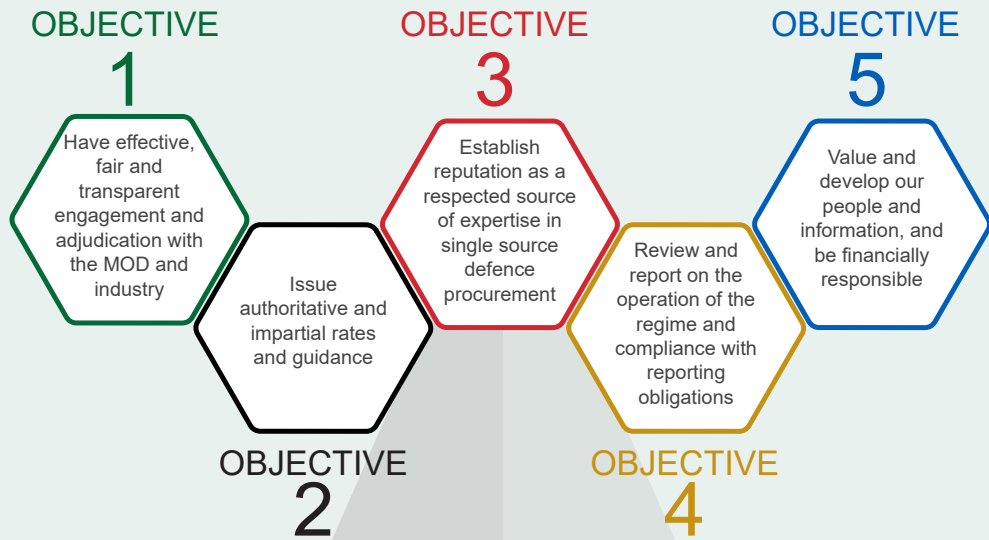


SSRO Single Source Regulations Office

Our aims

- 1** Good value for money for the taxpayer is obtained in government expenditure on qualifying defence contracts.
- 2** Persons who are parties to qualifying defence contracts are paid a fair and reasonable price under those contracts.

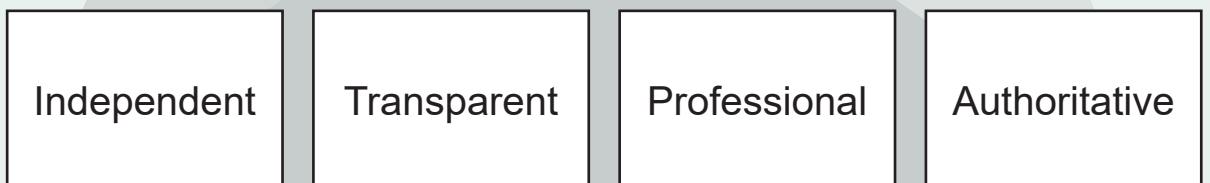
Our objectives



Our work



Our values



Finance

Following Board approval, the Accounting Officer for the SSRO has requested and received approval for our 2017/18 Budget of £5.770 million. The agreed budget includes the phased funding of four additional staff, the full year effect of which is accommodated in the 2018/19 projection, and the continued investment in the operation of the DefCARS database. Other changes reflect contractual or inflationary pressures.

Future budgetary requirements are generally stable. It is acknowledged that, as the regime matures, qualifying defence contracts and associated workload volumes are likely to increase: the MOD has stated that it expects 100 per cent of single source contracts to fall within the regime by 2019/20. This compares to 5 per cent of single source contract expenditure in the regime in 2015/16 and an MOD estimate of 47 per cent in 2016/17. The SSRO will discuss the impact of workload volume changes on budgetary requirements with the MOD.

There are other operational risks that are as yet unquantified, as a number of significant contracts will be renewed over the period. The SSRO continues to adopt an agile approach to the procurement and delivery of corporate back-office and support functions, including expert support on regulatory matters.

The majority of these services are already externalised and have benefited from the use of government procurement frameworks including G-Cloud. The forthcoming re-procurement brings both opportunities for realising greater efficiency and a risk of increased costs. Where these can be estimated (for example DefCARS) they have been included in the forecast and the MOD has been notified for planning purposes. On other contracts, the SSRO will liaise with the MOD on procurement outcomes as part of the annual cycle of funding approval.

The SSRO is still a young and developing organisation, however we recognise the need to make efficient use of public funds. The SSRO plans include a target efficiency gain in 2018/19 and a further gain in 2019/20. This will be based on an internal efficiency review to be conducted in 2018/19 following the outcome of the review of the legislation and the MOD's plans for a sponsor department review of the SSRO. This will ensure the SSRO's own review is able to accommodate any changes that may arise.

3 year budget			
Running costs	2017/18	2018/19	2019/20
Staffing	4,096	4,177	4,220
Accommodation	611	626	642
IT costs	608	652	665
Legal and professional fees	180	184	188
Other costs	225	231	235
Total running costs	5,720	5,870	5,950
One-off costs			
IT maintenance / developments	50	50	50
Regulatory database	-	60	-
Total one-off costs	50	110	50
Total costs	5,770	5,980	6,000

Alternative scenarios and risk factors

The SSRO acknowledges there are a number of corporate risks that may significantly affect the execution of its Corporate Plan. The SSRO gains assurance that all risks are managed by ensuring controls are robust in design and work as intended, as well as implementing processes to mitigate the individual risks. The SSRO manages its risks through a Corporate Risk Register, which is considered at the Executive Committee and overseen by the Audit Committee. The SSRO's approach to risk management is in line with its agreed Risk Framework, which is reviewed annually by the Audit Committee. The SSRO's appetite for each risk is considered by the Board. The Executive Committee monitors potential risks at each meeting through ongoing performance management, which it reports to the Board.



The majority of the risks identified in the Corporate Risk Register are mitigated by the SSRO's plans and actions, which are reflected in this document.

The most significant risks that may impact on the delivery of the Corporate Plan are to:

- the SSRO's independence; and
- insufficient resources.

We have considered the potential scenarios for the risks identified and how they may impact the SSRO in delivering its functions.

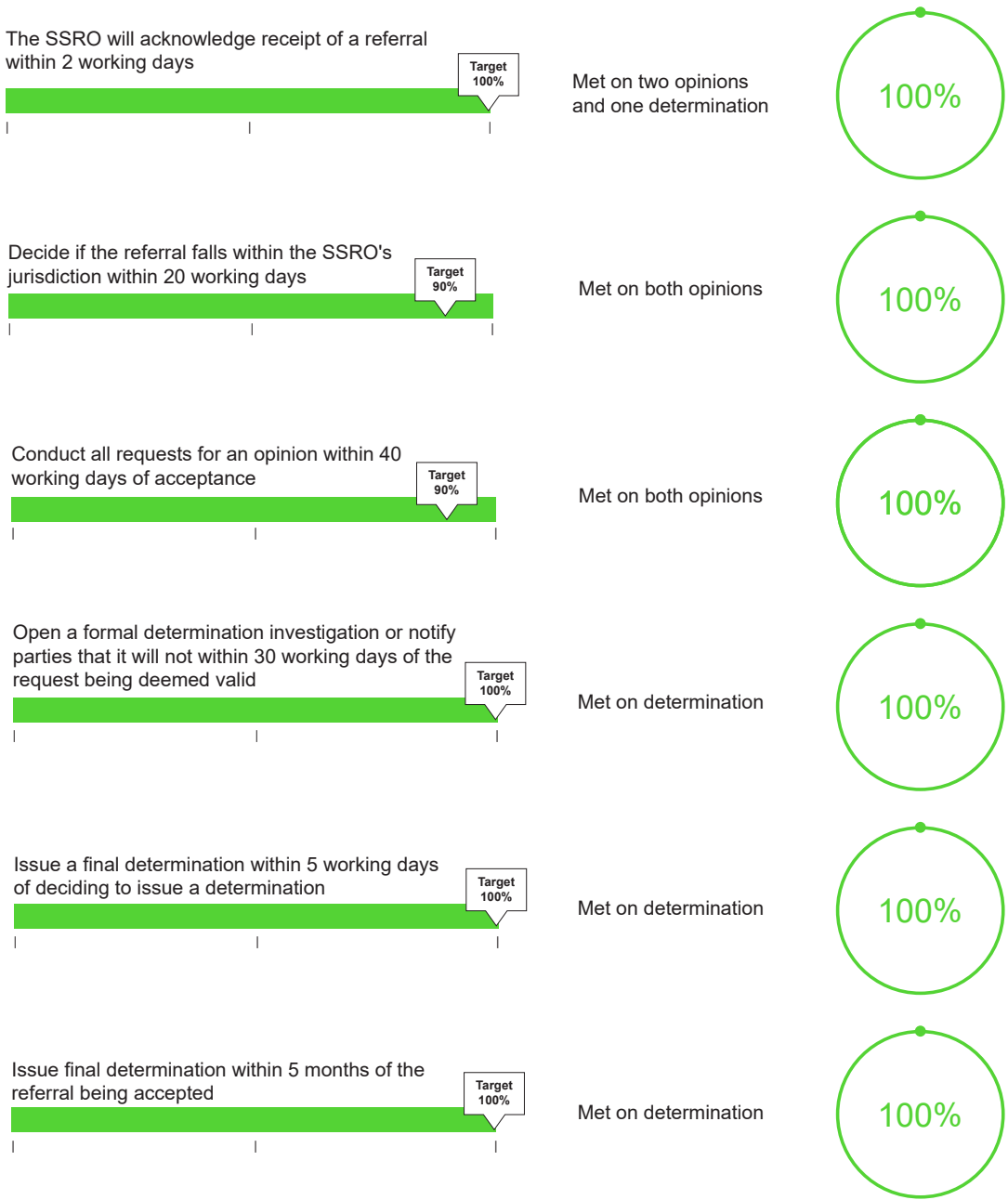
The SSRO's independence is enshrined in the Defence Reform Act and the Framework Document between the MOD and SSRO. There is a risk however that the SSRO might be perceived to be too close to the MOD or industry or both, and this may have an impact on the successful completion of the work in this Corporate Plan. The SSRO is mindful of this risk and is seeking to mitigate it in a number of ways, including through stating its findings in an honest and unbiased way, reporting in public where appropriate and engaging in a collaborative way.

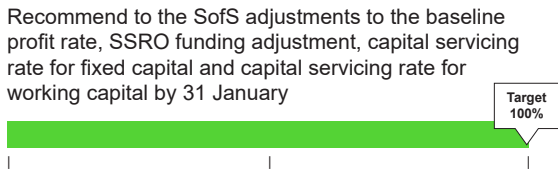
To mitigate the risk that the SSRO will not have the resources in place to carry out its statutory functions and deliver its objectives the organisation will regularly review staff numbers and budget. We are seeking an appropriate increase in revenues and staff numbers each year throughout the duration of this plan. We also have agreements in place with existing suppliers to source additional support if required to allow the SSRO to react to temporary work-load variations but as the regime becomes embedded and the volume of business as usual work grows there is a need keep under review the organisation's resources.

Out of 21 key performance indicators for which we have data in 2016/17, 86 per cent (18) were delivered in full or in progress across the three year Corporate Plan period, and on track to be delivered in full.

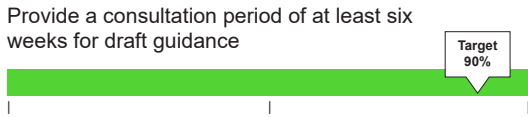
Performance in 2016/17

The following KPIs applied for 2016/17.

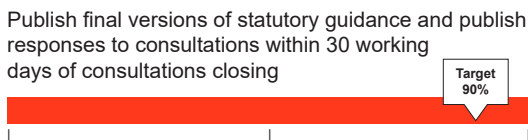




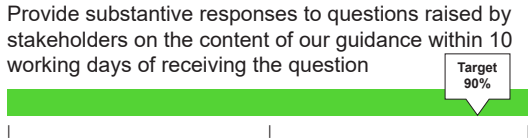
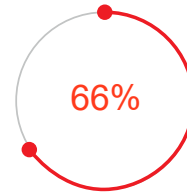
Letter sent on 30 January 2017



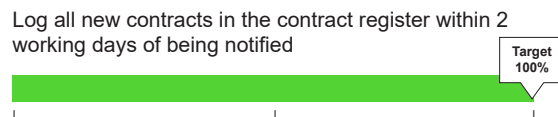
We provided consultation periods of longer than six weeks for all three consultations on guidance commencing in 2016/17



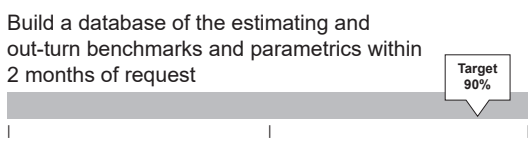
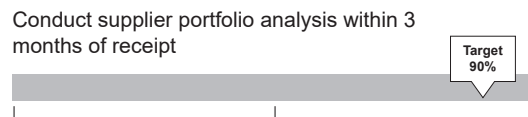
We published responses within the time limit in 2 out of 3 consultations that closed in 2016/17. We did not publish our response to the consultation on the compliance and review methodology within 30 working days due to late submissions

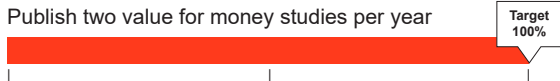


Met for 100 per cent of the 140 questions to date

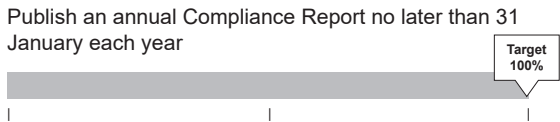
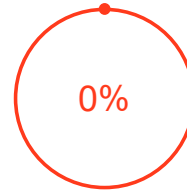


We have logged all contracts in the contract register within 2 working days

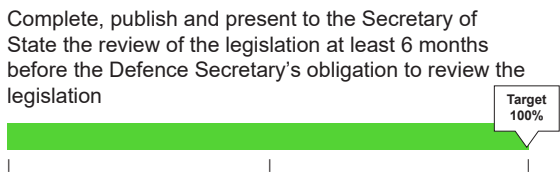
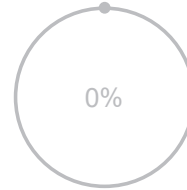




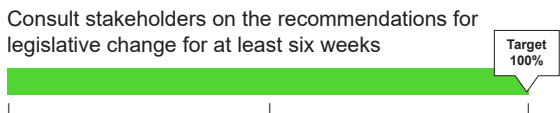
We undertook and completed a study on Wage Inflation, but we did not receive approval by the MOD to publish the findings. Work is underway on a study on risk in single source procurement.



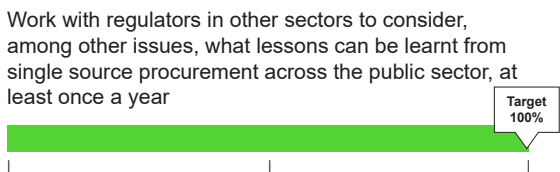
The SSRO Board agreed in December 2016 that this report (renamed the 'Annual report on the single source regime') will now be published in June 2017 to align with the financial year. An Interim Compliance Statement was published in July 2016.



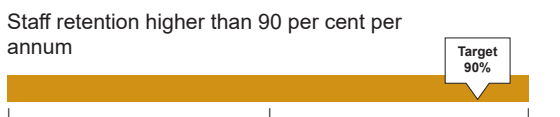
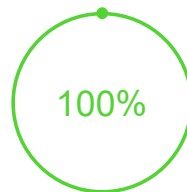
Remains on track for completion before June 2017



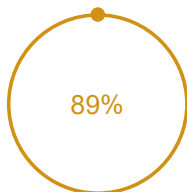
8 week consultation held between 30 January and 24 March

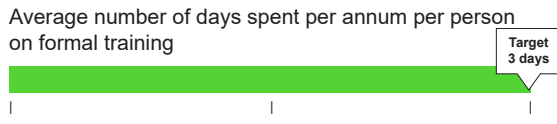


The discussion paper published on contributed to this KPI

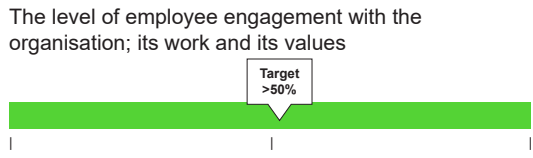


There were three voluntary staff resignations in 2016/17

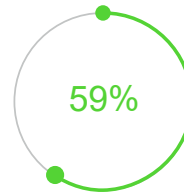




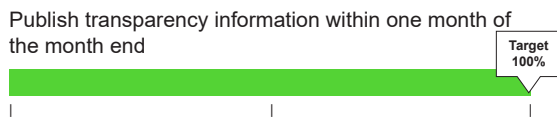
The SSRO met this target with staff spending an average of 3 days this year on formal training



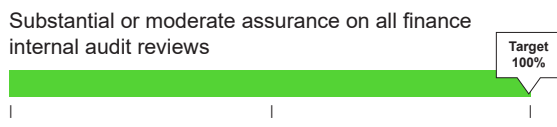
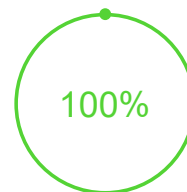
In February 2017, the SSRO undertook its second staff survey, which was based on the version used across the civil service to provide a comparable benchmark. The staff survey was used to measure our KPI target of “greater than 50 per cent engagement with staff”. The overall mean engagement score was 59 per cent, exceeding our KPI target.



98 per cent of invoiced paid within 5 days



100 per cent published on time



Substantial assurance received for all internal audit reports

