



SSRO

Single Source
Regulations Office

Assuring value, building confidence

SSRO Corporate Plan
2016-2019

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Foreword

Assuring value, building confidence

As it enters its second year of operation, the Single Source Regulations Office (SSRO) is seeking to build on the significant impact it made in its first. We will continue to undertake our statutory functions as set out in Part 2 of the Defence Reform Act 2014, encouraging compliance with the legislation and demonstrating that single source can be a credible alternative where it provides value for money and competitive procurement is not viable, and appropriate oversight is in place.

As the independent regulator of the UK government's procurement of single source military goods, works and services, we oversee spending on a large scale. Single source procurement represented around 53 per cent of new MOD contracts in 2014/15 and the MOD spent approximately £8.3 billion on single source contracts in that year. Over the last nine years the average proportion of MOD expenditure on single source procurement was around 49 per cent. If this trend continues, the MOD will procure around £87 billion through single source contracts over the life of the current Equipment Plan (2015-2025).

The Act set two aims for the SSRO. The first is to ensure that good value for money is obtained for the UK taxpayer in MOD expenditure on qualifying defence contracts (QDCs).

The new regime has the potential to deliver significant savings, which can be reinvested elsewhere in defence. In 2015 the SSRO identified around £60 million of potential savings (equivalent to its running costs for at least the next decade). The SSRO seeks to ensure good value for money through several of its functions:

- Our guidance on what costs are 'Allowable' under QDCs, which we will review and revise this year. The Single Source Cost Standards guidance makes sure that the prices paid by the government truly reflect the cost of delivering appropriate quality products and services. Allowable Costs must be 'Appropriate, Attributable and Reasonable in the circumstances'. We have seen examples of non-Allowable costs being claimed, such as for faulty workmanship resulting in rework; redundancy costs in excess of statutory redundancy; and marketing costs incurred on export campaigns in anticipation of future sales that might not materialise. We will continue to support the MOD in bearing down on such costs.
- We are required annually to review the rates used to determine the contract profit rate and to make a recommendation to the Secretary of State for Defence on whether the rate should be adjusted. In January 2015 we recommended a reduction of 0.1 per cent in the baseline profit rate. Over the last year we have undertaken a fundamental review of the methodology for calculating the baseline profit rate, which is now determined by considering the profits achieved by a more international and appropriate range of companies. In future, we will seek to recommend multiple profit rates, which will be more appropriate to the type of work to which they apply.
- We will continue over the next three years to help the MOD secure better value for money by, for example, analysing the cost information we hold to highlight where a supplier's spending is consistently higher on certain costs than others.

- Our programme of analytical work will allow us to comment on issues that might restrict value for money, identify the potential for savings and share best practice. Outputs can include a published value for money study, with key findings; the estimated potential for savings; and recommendations to improve value for money, for both the MOD and industry.
- The existence of the regime itself has created unquantified savings. It does so by providing more opportunities for the MOD to act as an intelligent customer and seek efficiencies through contract negotiations.

“We also set up the Single Source Regulations Office as an independent review body: operational now for 12 months. No longer will suppliers have carte blanche to set the terms of the trade and this will, we believe, help to ease concerns about defence inflation by imposing a much greater spotlight on transparency on the individual single source contracts, bills and invoices they submit.”

**Minister for Defence Procurement,
Philip Dunne MP, 13 January 2016,
Westminster Hall debate**

The SSRO’s second aim is to ensure that single source suppliers are paid a fair and reasonable price under QDCs. This is as important as our first aim, and has been a guiding principle in our work on the baseline profit rate methodology and in the development of the Single Source Cost Standards.

The new single source procurement regime will result in many benefits for industry. It provides more certainty about procurement; sets a level playing field; delivers greater clarity on what costs the MOD will meet; provides an independent adjudicator; and ultimately creates greater confidence in single source as a method of procurement.

As part of our active programme of stakeholder engagement, we have now met with all of the major prime contractors and visited many of their facilities. We will continue this programme through the period of this Corporate Plan, as such meetings provide a valuable insight into the work of contractors and an opportunity to discuss issues of mutual interest.

We meet regularly with contractors to discuss issues on individual QDCs and to help them meet their obligations. While we are asking contractors to be more transparent, in return we will be fair and open, listen to all, and remain impartial. Through all our work, we will also ensure that we do not have a negative effect on the delivery of operational capability.

We have seen differing levels of understanding of, and compliance with, the Single Source Contract Regulations 2014 (the Regulations) and the SSRO’s guidance, both by contractors and the MOD. This is not surprising as 2015 was the first year for the new arrangements for single source contracts. We will continue to devote resources to help build an understanding of what is required. We will publish a Compliance Report annually, assessing compliance by the MOD and single source suppliers to the provisions of the Act and the Regulations.

Working with industry, we have provided a full set of Defined Pricing Structure templates, covering 16 military equipment types such as surface ships, unmanned aerial vehicles and submarines. These will help to establish a single, centrally available, comprehensive data set to determine relationships between costs and outputs, and record the estimated and outturn costs, for every QDC and Qualifying Sub Contract (QSC). This will enable future analysis such as benchmarking, while assisting effective contract monitoring without being burdensome.

We have to date issued one opinion and received one request for a determination, in response to referrals from either the MOD or industry. The SSRO's issued opinion was in respect of a proposed QDC, with the referring party seeking the SSRO's opinion on the extent to which specified costs were Allowable Costs, as well as additional guidance to that contained in the SSRO's Single Source Cost Standards.

"The SSRO has demonstrated the expertise and independence to balance the need to secure value for money for the taxpayer, with a fair return to those companies delivering important defence equipment and services"

Paul Everitt, ADS, September 2015

Over the course of the next three years, we will continue to make a difference, helping the MOD secure better value for money while ensuring that single source suppliers are paid a fair and reasonable price under QDCs.

As the expert guardian and adjudicator of the single source procurement regime, the SSRO will seek to champion the new regulatory framework efficiently and effectively, operating independently, transparently and with professionalism. We will also work with other regulators and comparable international organisations to understand the lessons of effective regulation. To this end, in 2014/15, the SSRO became a member of the UK Regulators Network (UKRN). We look forward to engaging with other UK regulators through this forum, in order to ensure effective cooperation between sectors and to share approaches and best practice.

Importantly, the SSRO will seek good value for money through its own conduct, by being efficient and economic with its own resources.

Section 1: Aims and values

The SSRO has two statutory aims, which are set out in the Act. They are to ensure that:

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

These two aims are of equal importance. The SSRO will work to achieve its aims while adhering to its values at all times. These are to be:

- **Independent:** We are mindful of how important it is that the SSRO is independent of the organisations it regulates, the MOD and defence contractors. 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. We will continue to be impartial and fair to all parties, will listen to reasoned arguments and consider all relevant evidence.
- **Transparent:** The SSRO operates openly and transparently, and is proactive in engaging with its stakeholders and the public. We hold open consultations on all important documents affecting them; publish as much information as we can about our work programme and our decisions; and regularly meet with our stakeholders, at a senior and working level. Although transparent, we always ensure the confidentiality of sensitive commercial and financial information. This principle is of vital importance and applies throughout this document, even where not specifically mentioned.
- **Professional:** We now have a full complement of 33 high calibre staff, and a budget in 2016/17 of £5,548,000 funded by the MOD. Our staff have relevant skills and experience across a range of specialisms, and work effectively and professionally. All staff and non-executive members are acutely aware of the sensitive nature of the information we hold and the work we undertake. We treat information and data security as a top priority and we maintain security controls at a high level in the office and across our technology infrastructure.

Section 2: Strategic objectives, key performance indicators and review of performance

The SSRO has 6 strategic objectives:

Figure 1: SSRO objectives



Out of a total of 28 key performance indicators in place in 2015/16, 68 per cent (19) were delivered in full; 32 per cent (9) were on track to be delivered across the three year Corporate Plan period. No key performance indicators due for completion in 2015/16 have failed to be delivered.

Objective 1: Be a fair and transparent adjudicator between the MOD and industry

What we will deliver

The SSRO provides opinions and legally binding determinations in response to valid referrals from the MOD, contractors and subcontractors. To date the SSRO has issued one opinion and received one request for a determination.

As an adjudicator and expert on single source procurement, the SSRO expects to be the first port of call for parties unsure whether a contract is being negotiated or managed in accordance with the principles of the Act. Should parties be unable to agree, either before a contract has been entered into or thereafter, they can make a referral for an opinion or determination to the SSRO.

The matters on which a referral to the SSRO can be made are:

- whether step 2, 3 or 6 of the contract profit has been appropriately determined;
- the extent to which a cost under a contract is an Allowable Cost;
- the amount of any final price adjustment for firm or fixed price contracts;
- whether obligations of confidence were entered into for genuine commercial reasons;
- whether a subcontract is a qualifying subcontract (QSC);
- matters relating to a compliance or penalty notice; and
- whether the Secretary of State or an authorised person has reasonably exercised functions in relation to contractor records.

The SSRO will consider all referrals made by the MOD or industry. We have published separate guidance setting out our procedures for providing opinions and determinations. For the SSRO to respond to a referral, it must meet certain requirements, including:

- that the reasons for the referral are set out clearly;
- that the opinion sought by the referring party is stated;
- that there is evidence of previous measures taken to address the matter referred; and
- the identification of the provision in the legislation or elsewhere under which the SSRO is being requested to consider the referral.

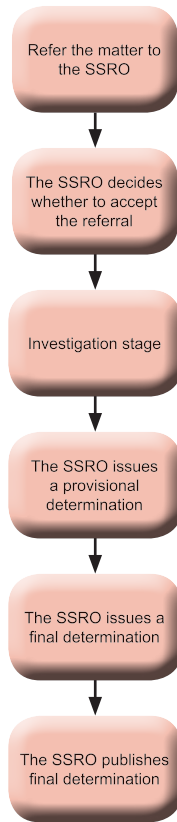
Following a referral, the SSRO will assess its authority to respond to the referral, taking into account its statutory duties and discretions under the Act and Regulations. At the same time, the SSRO will analyse the information provided by the referring party to establish whether the referral contains the requisite information and evidence. If the SSRO considers that a referral falls within its jurisdiction and includes sufficient evidence and information, the process of giving an opinion or determination will begin.

The SSRO will gather information from the parties and, where beneficial to the referral, will organise a site visit and informal oral hearing with the parties.

The final decision on referrals will be made by the SSRO's Referrals Committee. After the decision is made, it will be sent to the parties and a summary will be published on the SSRO's website and included in the annual Compliance Report.

The main difference between the process for opinions and determinations is that the SSRO will issue a provisional determination before the final decision is made. Parties will be given the opportunity to respond in writing and, if agreed by the SSRO, at an oral hearing. The SSRO will carefully consider responses to provisional determinations, and the final determination may be modified on the basis of these representations.

Figure 2: Steps in a determination



On 1 February 2016, the SSRO became a ‘prescribed person’ under the Public Interest Disclosure Act, able to hear from whistleblowers under the Employment Rights Act 1996. The SSRO can consider and act on ‘qualifying disclosures’ related to single source defence procurement. A ‘qualifying disclosure’ is a report of malpractice or wrongdoing, which could include a criminal offence, failure to comply with legal obligations, health and safety breaches, corruption or deliberately concealing information.

This will allow the SSRO to strengthen its oversight of the single source defence procurement regime by receiving protected disclosures of malpractice or wrongdoing from employees of industry, the MOD and third parties.

The SSRO will aim to help ensure these matters are rectified or prevented from occurring in the future, further improving the credibility of single source as a means of procurement. We will also report on the organisation’s handling of such disclosures in our Annual Report and Accounts.

If the concern raised meets the requirements of the Employment Rights Act and the matter falls within the SSRO’s remit, we will review the issue and make recommendations in line with the execution of our statutory functions. The SSRO’s action could include highlighting the issue in its Annual Compliance Report, publishing anonymous case studies and lessons learned, and considering the information in its review of the legislation and Value for Money studies.

How we will deliver this objective

- We will be proportionate and focused, opening formal investigations only when it is appropriate to do so.
- We will follow our published guidance on opinions and determinations. This guidance will provide all potential parties with an understanding of our adjudication process, so that no party will find themselves at a disadvantage.
- We will however reserve the right to modify the procedures set out in the guidance in appropriate circumstances, including extending timetables where more information or evidence is required.
- 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.

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- The SSRO will make known the outcomes of the referrals it has handled. Decisions and the reasons behind them will be published on the SSRO website (without any confidential information) and in our annual Compliance Report. By doing so we will promote a greater understanding of the Act and Regulations, which will in turn encourage greater compliance.
 - We will not issue either an opinion, or provisional or final determination, without providing the reasons why we have reached that conclusion. By doing so we will assure parties that our decisions are made only on the basis of robust evidence and analysis.
 - We will respond to all concerns raised by whistleblowers in accordance with our published Whistleblowing Policy.

Key performance indicators

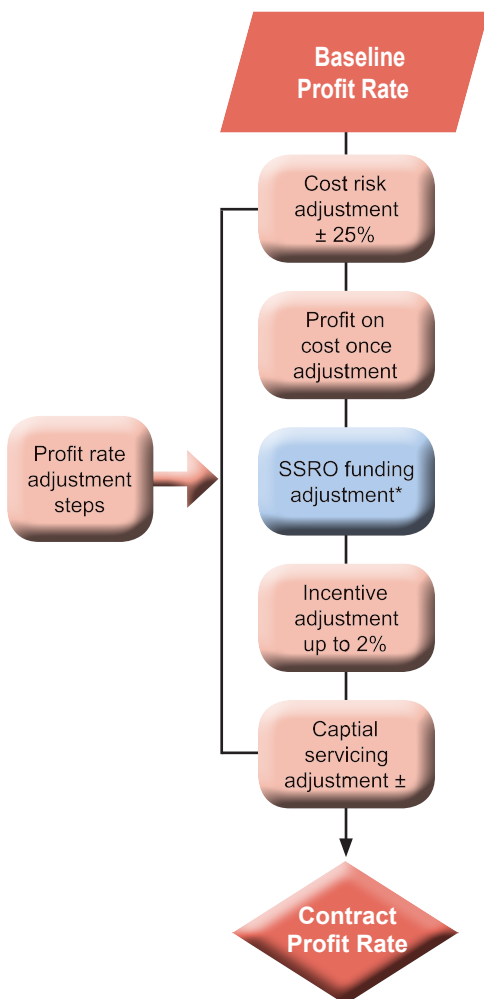
Process	What is being measured	Annual Target	Performance in 2015/16
Referral to the SSRO for an opinion or determination	The SSRO will acknowledge receipt of a referral within 2 working days.	100 per cent	Delivered in full
SSRO assessment of whether or not the referral is valid	The SSRO will decide whether the referral falls within its jurisdiction and contains the requisite evidence and information within 20 working days.	100 per cent	Delivered in full
SSRO procedure on opinions	The SSRO will conduct all requests for an opinion within 40 working days of acceptance by the SSRO.	90 per cent	Delivered in full
SSRO decision on whether or not to open a formal investigation on a determination	The SSRO will either open a formal investigation on a request for a determination or notify parties that it will not be taking the referral any further within 30 working days of the request for determination being deemed valid.	90 per cent	Delivered in full
SSRO decision on whether or not to open a formal investigation on a determination*	The SSRO will consider evidence and information gathered and received and decide whether to issue a provisional determination or end the investigation within 30 working days of the formal investigation on a determination being opened.	90 per cent	Delivered in full
SSRO provisional determination*	The SSRO will formulate and issue a provisional determination within 15 working days of deciding that it would be appropriate and necessary to do so at the conclusion of the formal investigation.	90 per cent	On target
SSRO reaching a final determination*	The SSRO will analyse and assess representations in response to the provisional determination. It will then formulate a final determination or notify parties of the reasons why it no longer considers a determination to be appropriate within 25 working days or receiving responses to the provisional determination.	90 per cent	On target
SSRO final determination	The SSRO will issue a final determination to the parties and publish the decision and the reasons behind it on its website within 5 working days of deciding to issue a determination in light of responses to the provisional determination.	100 per cent	On target
Total time for the SSRO to issue opinions and make determinations	If the SSRO deems it necessary and appropriate to complete the process outlined above and issue a legally binding determination, the final decision will be made within 5 months of the referral being accepted.	100 per cent	On target
*KPIs will not apply for 2016-2019.			

The SSRO will work towards having multiple profit rates in future, for adoption first in 2017/18. In our view, multiple rates using the SSRO's new search criteria will offer better value for money for taxpayers than a single rate, while providing a fair and reasonable return for industry. The SSRO was intending to recommend a number of baseline profit rates for 2016/17, including two main activity types, 'develop and make' and 'provide and maintain'. However, before the finalisation of the SSRO's proposals, the Secretary of State issued statutory guidance to the SSRO that the methodology used to calculate profit rates for UK single source contracts should result in setting a single baseline profit rate in 2016/17.

Using our published methodology, we will continue to calculate the baseline profit rate and capital servicing rates, and make recommendations to the Secretary of State, by January of each year. The baseline profit rate is adjusted following the steps set out in the Act, which are shown in Figure 4, so that the prices paid under single source contracts reflect industry's costs in fulfilling them efficiently. Rates recommended by the SSRO will be authoritative, calculated according to sound principles and published methodologies while maintaining balance and impartiality between the MOD and industry.

The SSRO will this year provide guidance on step 4 of the process set out in Figure 4, the SSRO funding adjustment. Under the Act, industry funding is intended to cover 50 per cent of the SSRO's costs. The Act requires the SSRO to make a recommendation to the Secretary of State on the adjustment in time for the March 2017 publication of the baseline profit rate for 2017/18. The funding adjustment is discussed further under objective 6.

Figure 4: Process for adjusting baseline profit rate



* Not applicable until 2017

The Act also requires the SSRO to issue guidance for use by the MOD, contractors and subcontractors. Taken together, our guidance forms a single point of reference for all stakeholders to establish whether their actions comply with the Act and Regulations, and there is a legal requirement to have regard to guidance issued by the SSRO. The SSRO will consult on drafts of statutory guidance issued by the SSRO. We will aim to provide a consultation period of at least six weeks for all major written consultations, to allow our stakeholders adequate time to respond. To date, the SSRO has gone further than its commitment to consult only on statutory guidance by, for example, consulting on its proposed programme of value for money studies.

Our statutory guidance will positively influence the ways in which the MOD and industry behave and interact through the negotiation and management of single source contracts. We will periodically evaluate and assess our current published guidance, to ensure that it remains fit for purpose and continues to reflect the expectations and interests of all parties subject to the Act.

The areas on which the SSRO publishes guidance are:

- The baseline profit rate and adjustments used to determine the contract profit rate. Details on the principles and methodology behind these steps can be found in our guidance, Contract Profit Rate: Guidance on adjustments to the Baseline Profit Rate, which is published on our website.
- The principles that contractors and the MOD must have regard to when determining whether costs are 'Allowable' under QDCs and QSCs. These are set out in the SSRO's Single Source Cost Standards: Statutory Guidance on Allowable Costs, which includes a range of examples and checklists to help users assess if costs meet the criteria specified in the Act.
- Preparing reports for the SSRO and MOD. The Act provides for a statutory obligation on qualifying defence contractors and qualifying subcontractors to provide a range of reports from the time a contract is entered into through to the date it is completed. The SSRO publishes report templates and user guides to provide parties with a simple and standard means of reporting.

- Determining the amount of a penalty. The SSRO's Single Source Statutory Guidance on Determining Penalty Amounts provides the factors for the Secretary of State to use when determining penalty amounts and the factors tending to reduce penalty amounts.

We also publish 'SSRO Answers', which is intended to supplement our statutory guidance by providing informal clarification on questions asked by stakeholders about aspects of the Framework. It is updated monthly.

How we will deliver this objective

- The SSRO will calculate the baseline profit rate and capital servicing rates and recommend them to the Secretary of State before 31 January each year. We will work towards recommending multiple rates in future, for adoption first in 2017/18. We will use our published methodology (Single source baseline profit and capital servicing rates methodology) as the basis for calculations, but will consider amending the document to allow for the recommendation of multiple rates from 2017/18.
- We are currently consulting on an update to the SSRO's Contract Profit Rate: Guidance on adjustments to the Baseline Profit Rate, and will publish the final guidance before the start of 2016/17. We will consider updating the guidance to allow for the recommendation of multiple rates from 2017/18.
- We will review our Single Source Cost Standards guidance in 2016, following a discussion with the SSRO's Senior Stakeholder Forum in March 2016. The guidance will remain principles, rather than rules, based. It will retain the principle that for a cost to be Allowable it must be Appropriate, Attributable to the contract and Reasonable in the circumstances.
- We will review our guidance on how the amount of a penalty is to be calculated in 2016. The guidance sets out the factors to which the Secretary of State must have regard when determining the amount of a penalty.

Figure 5: SSRO QDC cycle



- Factors include the impact and nature of the contravention, the compliance history of the contractor in question and any steps taken by that contractor to prevent future breaches of compliance.
- We will review the user guides and report templates we have produced for industry in 2016. To date the SSRO has received and analysed 54 individual reports. As a result, we have identified areas where the report templates can be updated, and will be updating the 17 user guides to assist contractors in completing the reports.
 - The SSRO's website will also be updated so that the report templates and user guides are easier to find and
 - We will help contractors understand which reports to complete and when.
 - We will consult on all statutory guidance we issue, providing stakeholders with the opportunity to contribute their views and shape our guidance. Participants include the government departments and non-departmental public bodies, key defence contractors, Members of Parliament, consultancies and other regulatory bodies. Our final guidance will be impartial and authoritative, and will have regard to the interests, concerns and opinions of a broad range of stakeholders.
 - We will publish SSRO Answers at least monthly.

Key performance indicators

Process	What is being measured	Annual Target	Performance in 2015/16
Review the principles and methodology used to calculate the baseline profit rate*	The SSRO will conduct a full review into the principles and methodology used by the Review Board for Government Contracts to calculate the baseline profit rate. The review will focus on areas including the principle of comparability, R&D tax credits and the use of simple rolling averages and will be completed no later than 31 December 2015.	100 per cent	Delivered in full
Recommendation of contract profit rates to the Secretary of State	The SSRO will recommend to the SofS adjustments to the baseline profit rates, SSRO funding adjustment, capital servicing rate for fixed capital and capital servicing rate for working capital no later than 31 January each year.	100 per cent	Delivered in full
Consultation periods for statutory guidance by the SSRO	Consultations are held on drafts of statutory guidance issued by the SSRO. We will aim to provide a consultation period of at least six weeks for all major written consultations, to allow our stakeholders adequate time to respond.	90 per cent	On target
SSRO processing and publication of statutory guidance and responses to consultations	The SSRO will publish final versions of statutory guidance and analyse responses to consultations on statutory guidance and publish them on our website within 30 working days of consultations closing.	90 per cent	Delivered in full
SSRO publication of statutory guidance*	The SSRO will publish final versions of statutory guidance within 30 working days of consultations on our draft guidance closing.	90 per cent	Delivered in full
SSRO response times to questions on our guidance	The SSRO will provide substantive responses to questions raised by stakeholders as to the content of our guidance within 10 working days of receiving the question.	90 per cent	Delivered in full

* KPIs will not apply for 2016-2019.

Objective 3: Analyse the data provided to us to share best practice and assess compliance

What we will deliver

The SSRO monitors and assesses the application and impact of the single source procurement framework. By carrying out this role effectively, the SSRO will establish clear procedures for measuring compliance with the framework as well as the extent to which it is resulting in benefits for the MOD and industry, and identify areas of good practice and further improvement.

The SSRO records QDC and QSC information supplied to us by the MOD in our contract register, as required by Section 36(1) of the Act. Data recorded in the register will include contract pricing type, contract duration, and contract values for each current QDCs and QSCs. We understand the information supplied to us is confidential and we will ensure the security of all such information through maintaining and regularly reviewing our procedures on the handling and storage of such information.

The SSRO will analyse the reports provided by industry. The analysis we produce will be based on a range of evidence and will generate comparative management information and defence benchmarks and parametrics. This data can be used by the MOD to work with industry to negotiate and manage contracts in a manner that is aligned with the aims and principles of the Act.

This work will be complemented by a programme of VFM studies, which will consider issues that might restrict value for money, identify the potential for savings and share best practice. These studies will be on a range of topics identified by the SSRO and could include discussion papers, in-depth analytical studies, and the provision of benchmarking data. They will facilitate the SSRO's functions by providing evidence to support:

- the SSRO's work under Section 39 of the Act, which requires it to keep Part 2 of the Act and the Regulations under review and to make recommendations of such changes it considers appropriate to the Secretary of State;
- the SSRO's future opinions and determinations; and
- the SSRO's issuing of statutory guidance required by the Act.

This work is separate to any requests made to the SSRO to provide independent insights for the Secretary of State for Defence, funded under Section 37 of the Act. It is also separate to any potential requests from industry that it would fund to perform ad hoc analysis on its behalf (where this does not compromise confidentiality commitments to other suppliers), as referred to in the Framework Document between the SSRO and MOD.

Through using the data submitted to us, we will also provide independent insights when asked for the Secretary of State, enabling the MOD to estimate prices, negotiate contracts and manage projects in a more informed and effective manner.

The SSRO has in the last year published principles on the Defined Pricing Structure (DPS), a list of cost categories describing key components of the deliverables to be provided under a contract. This year, the SSRO worked with industry and the MOD to develop a series of detailed DPS templates to capture the cost breakdown for 16 different types of defence equipment, which allow cost information to be collected to enable future analysis, while assisting effective contract monitoring. To help contractors supply the required information for analysis, the SSRO will ensure that the DPS reporting templates are kept up to date and easily accessible. The SSRO will monitor whether reports comply with its requirements, and have been provided on time and completed in their entirety.

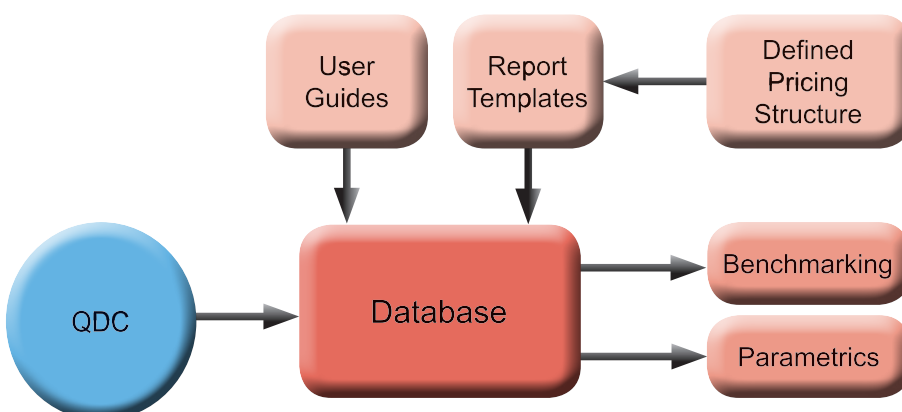
The SSRO identifies and publically reports on areas of non-compliance with the Act and Regulations by the MOD and industry in relation to each QDC and QSC. The Act requires the SSRO to “keep under review the extent to which persons subject to requirements under Section 24 or 25 (reports) are complying with them” (Section 36(2)). The Framework Document between the SSRO and the MOD requires the SSRO to “publish a report on an annual basis that summarises compliance by the MOD and single suppliers to the provisions of the DRA and SSPRs. This report will be publically available”. Our annual Compliance Report is intended to be an effective tool to monitor and encourage compliance with the Act and the Regulations. The SSRO’s analysis of the reporting data will help to assess how the Framework is functioning.

The SSRO will also keep a record of any compliance or penalty notices issued by the MOD and will act as the appeals body for suppliers seeking to dispute these notices.

How we will deliver this objective

- We will maintain an up-to-date register of all QDCs and QSCs and Defined Pricing Structure templates to help contractors provide the required data.
- To ensure the safe collection, storage, handling and analysis of reporting data given to us, we will maintain a fully secure and accredited Defence Contracts Analysis and Reporting System, working with the MOD and industry to ensure this continues to meet all parties’ reporting requirements. Our software, applications, information technology support and staff usage will at all times comply with our handling instructions, industry best practice and highest security classification and access controls.
- We will manage the database efficiently, monitoring the quality, timeliness and accuracy of the reports we receive. As a result, we will acquire a thorough knowledge of the extent to which parties are meeting their obligations and requirements under the legislation.
- We will maintain a database of the compliance and penalty notices issued by the Secretary of State. We will also record any referrals made to us by qualifying defence contractors or qualifying subcontractors.

Figure 6: SSRO report submission



- We will undertake analysis providing useful comparative management information, benchmarks and parametrics. Such analysis might highlight for example where one supplier is spending consistently more on certain costs than others and how overheads are allocated across a supplier's portfolio of contracts. Our programme of VFM studies will highlight value for money issues, potential savings, and facilitate the sharing of best practice. It will also provide evidence to support the SSRO's other functions.
- We will provide detailed analysis for the Secretary of State under Section 36 and Section 37 of the Act.
- We will publish annually a Compliance Report to measure industry and MOD compliance with their duties and obligations under the Act and Regulations. The Compliance Report will provide stakeholders with a detailed understanding of which parties have taken meaningful steps towards implementing the provisions of the legislation and which parties have failed to act in accordance with the requirements.

Key performance indicators

Process	What is being measured	Annual Target	Performance in 2015/16
Maintenance of an up-to-date register of contracts	The SSRO will record all qualifying contracts and subcontracts as well as their duration and will log all new contracts in the contract register within 2 working days of being notified by the MOD.	100 per cent	Delivered in full
Producing supplier portfolio analysis	The SSRO will conduct supplier portfolio analysis. Analysis will utilise supplier reports on areas such as overhead expenditure, rates and capacity and will provide useful comparative management information. Analysis will be completed within 3 months of receipt.	90 per cent	On target
Compiling defence benchmarks and parametrics	The SSRO will build a database of the estimating and out-turn benchmarks and parametrics, and use this to suggest those which should be used for independent cost estimating tools and to support price and rate negotiations. Relevant information will be provided within 2 months of request.	90 per cent	On target
VFM studies	The SSRO will publish two value for money studies per year.	100 per cent	New KPI for 2015/16
Completion and publication of yearly compliance reports	The SSRO will publish an annual Compliance Report which illustrates MOD and industry compliance with the provisions of the legislation and will be completed and published publicly no later than 31 January each year.	100 per cent	Delivered in full

Objective 4: As an expert on single source procurement, keep the Defence Reform Act and Regulations under review

What we will deliver

The Act requires the Secretary of State to review Part 2 of the Act and the Regulations. The initial review must be completed no later than three years after the introduction of the current Regulations and every five years thereafter. The Act also requires the SSRO to keep the Act and the Regulations under review, and for the Secretary of State to have regard to the findings and recommendations of the SSRO when deciding whether to alter the existing statutory framework. The SSRO must publish its recommendations to the Secretary of State at least six months before the Secretary of State’s review is due to be complete, in the first instance by 16 June 2017 at the latest.

The SSRO is on course to meet this deadline. The SSRO Board has overall responsibility for keeping the legislation under review, and has agreed a timetable, project plan and governance arrangements for this work through its Regulatory Review Committee.

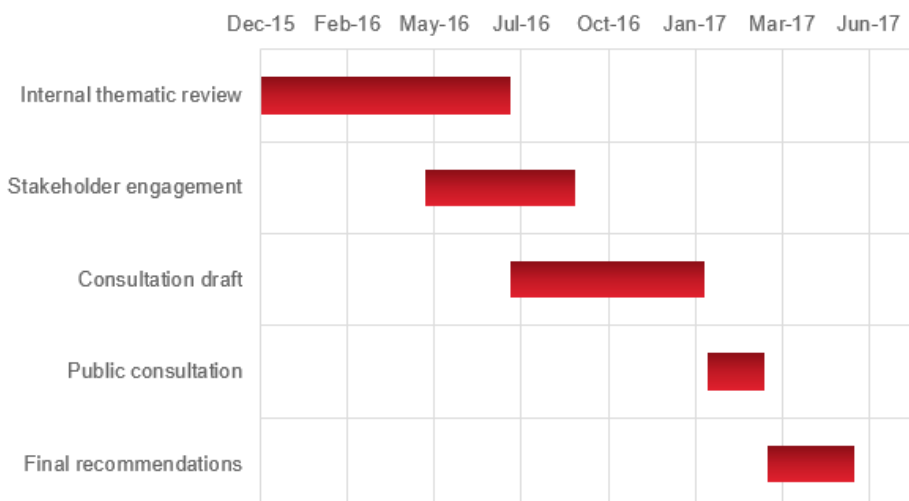
Consultation with stakeholders on initial recommendations for legislative change is scheduled to take place in the next financial year (2016/17), with the Board agreeing the final recommendations in

May 2017. The SSRO has made good progress to deliver these KPIs in full by the end of the review period of December 2017, and ongoing performance will be reported in the next financial year.

The SSRO will continuously assess and review the legislation, and our reviews will provide policy makers with the quantitative and qualitative information necessary to make well informed and robust decisions on whether to modify the current framework. We will recommend that the framework adapts in line with changes in the defence sector and continues to provide the SSRO with the means necessary to encourage meaningful and lasting improvements to single source procurement.

The SSRO will deliver reviews that build upon the data we have gathered and the analysis produced between review periods. Where necessary, our reviews will recommend legislative change to reduce unwarranted burdens, streamline regulatory processes and provide us with the tools and powers necessary to meet our obligations more effectively. This will particularly be the case if we find that the current legislation fails to maintain the balance between the MOD and industry and delivers benefits to one party disproportionately.

Figure 7: Summary timeline of objective 4



After successful liaison with other regulators and comparable organisations internationally in our first year, we will continue to work with others and seek to understand lessons from single source procurement in other sectors and countries. Through our work we will demonstrate that single source can be a credible method of procurement, where circumstances require it and where appropriate oversight is in place.

How we will achieve this objective

- We will consider 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 positive and negative elements in the way 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.
- We will assess the usefulness of data provided by industry and whether more or less detailed data sets would be beneficial.
- We will consider the findings of the Review of Single Source Pricing Regulations by Lord Currie of Marylebone, including the recommendations that were not adopted.
- We will conduct a two stage consultation process. We will first consult with primary users on the recommendations we put forward in our reviews. We will then undertake a two month public consultation in early 2017 to allow a wide range of interested parties to express their observations regarding the legislation and the ways we operate.
- We will explore and share regulatory best practice across a broad range of sectors in the UK and single source procurement internationally. To facilitate this we have recently been accepted as a member of the UK Regulators Network.

Key performance indicators

Process	What is being measured	Annual Target	Performance in 2015/16
Review of the Defence Reform Act and Regulations and present it to the Secretary of State and publish it online	The SSRO will produce a review of the legislation which will be presented to the Secretary of State and will put forward recommendations on whether the framework should be modified and how. Our reviews will be completed, published and presented to the Secretary of State at least 6 months before the Defence Secretary's obligation to review the legislation.	100 per cent	On target
Consult on the recommendations we put forward in our reviews	The SSRO will consult with stakeholders on the recommendations for legislative change put forward in our reviews. Our consultation on review recommendations will last for at least six weeks.	100 per cent	On target
Lessons from other sectors	We will undertake work with regulators in other sectors to consider, among other issues, what lessons can be learnt from single source procurement across the public sector, at least once a year.	100 per cent	Delivered in full

Objective 5: Be a good employer and value our people

What we will deliver

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. During the first full year of operation there was a necessary initial reliance on temporary staff and external experts but by April 2016 we have completed the recruitment of 33 staff to the organisational structure agreed by the Board. This increased internal capacity will allow the SSRO to further grow and develop its internal capacity and expertise, reducing the reliance on external support.

The Board has identified the need for additional non-executive Board member capacity and the SSRO, with the Cabinet Office and MOD, is currently recruiting two further members. Following Jeremy Newman's resignation in February 2016, a new SSRO Chair will also be appointed in the first year of this Corporate Plan. We would like to express our gratitude to Jeremy Newman for his work and vision in establishing the SSRO and managing its growth into an effective and fully operational organisation.

The SSRO, since its inception, has been refining and developing the most suitable organisational structure to meet and fulfil its obligations. To better match the level and diversity of our statutory functions a Director of Investigations and Compliance and a Director of Analysis and Reporting have been recruited and will be full Board members, in post by the end of March 2016. A separate Head of Regulatory Policy will report directly to the Chief Executive. Together the Investigations and Compliance, Analysis and Reporting and Regulatory Policy teams will deliver the SSRO's statutory functions and first four objectives in this Corporate Plan.

Our back office functions continue to operate with a combination of outsourced provision and sufficient in-house capacity to lead, manage and support the delivery of our statutory functions. Outsourced support arrangements draw on government framework contracts, including GCloud, wherever possible ensuring the benefits of public sector wide procurement arrangements are realised.

Recognising the continuing need to keep our resource requirements under review to ensure our functions can be delivered, specific framework contracts are being established to allow the SSRO to draw on expert support as required. In establishing such arrangements the SSRO has sought to improve resilience, ensure access to required skills and deliver value for money. We have established a legal support framework, and are in the process of establishing a framework for subject matter experts in cost engineering, risk management and economics; and an array of defence manufacturing specialists. Other framework contracts will be established as necessary to ensure resilience and access to necessary expert support.

Employees are the key to any organisation's success and the SSRO values its staff and supports individual growth and development. The SSRO has implemented a performance management system that includes:

- annual individual objective setting linked to corporate objectives;
- identification of training and development needs;
- regular assessments of employees' performance; and
- a commitment to providing employees with a minimum three days training per year.

In February 2016, the SSRO undertook a staff survey, which was based on the version used across the civil service to provide a comparable benchmark, with amendments made to ensure it addressed the issues in a new organisation the size of the SSRO. The staff survey was used to measure our Key Performance Indicator (KPI) target of "greater than 50 per cent engagement with staff". The overall mean engagement score was 69 per cent, exceeding our KPI target.

How we will achieve this objective

- We will recruit additional non-executive Board members. The recruitment is expected to take place in spring 2016.
- We will provide continuing professional development opportunities to staff, as part of an appropriate formal training and development strategy.
- We will ensure resilience and access to necessary expertise through use of Crown Commercial Service framework contracts or the establishment of dedicated framework contracts for specialised support.
- The SSRO will undertake an annual staff survey to assess employee engagement levels.

Key performance indicators

Process	What is being measured	Annual Target	Performance in 2015/16
Staff retention	Voluntary resignation of staff is less than 10 per cent.	10 per cent	Delivered in full
Training spend	Average number of days spent per annum per person on formal training.	Minimum of 3 days per annum per person	Delivered in full
Employee engagement level	The level of employee engagement with the organisation; it's work and it's values.	At least 50 per cent median positive feedback on employee surveys	Delivered in full

Objective 6: Be financially responsible and target our resources where they will have greatest public benefit

What we will deliver

Our first statutory aim is to ensure that good value for money for the taxpayer is obtained in government expenditure on qualifying defence contracts. This focus on taxpayer's money guides how we run the SSRO. The SSRO is currently funded by grant-in-aid from the MOD, but from 2017 it will be jointly funded by a top slice of profits from industry. We plan to consult on how this might operate in spring/summer 2016. 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.

Our corporate resources functions are set up to efficiently support the organisation as it pursues its strategic objectives. In line with the government's and the SSRO's commitment to transparency, the SSRO continues to publish its transparency reporting within the specified timescales.

How we will achieve this objective

- Our corporate resources functions will draw on Crown Commercial Service framework contracts or establish dedicated framework contracts for specialised support.
- We will consult on the SSRO's funding adjustment in 2016.
- We will regularly review staff numbers and the structure of the organisation, to ensure it is, and will remain, fit for purpose.

Key performance indicators

Process	What is being measured	Annual Target	Performance in 2015/16
Invoice payment	Undisputed invoices paid within 5 days.	80 per cent	Delivered in full
Transparency information	Required transparency information published within one month of the month end.	100 per cent	Delivered in full
Internal audit	Aim for moderate or substantial assurance on all finance internal audit reviews.	100 per cent	Delivered in full

Section 3: Alternative scenarios and risk factors

The SSRO acknowledges there are a number of risks that may significantly affect the execution of its Corporate Plan.

The SSRO gains assurance that 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 appetite for each risk is also considered by the Board. The Executive Committee also 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
- a higher number of referrals than expected, resulting in insufficient resources.

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

The independence of the SSRO was a key issue for Parliamentarians during the debates on the Defence Reform Bill. Our independence was enshrined in the Defence Reform Act and the Framework Document between the SSRO and the MOD. There is a risk however that the SSRO might be perceived to be too close to the MOD, 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 and seeking to review existing arrangements.

To mitigate the risk that the SSRO will not have the resources in place to consider a large number of referrals, our resource plans have been based on a flexible and agile approach so that the organisation can adapt to emerging workload scenarios. We have agreements in place with existing suppliers to source additional support if required to allow the SSRO to react to temporary workload variations. We have agreed with the MOD that should QDC volumes or other regulatory functions require additional capacity or resources we will revisit funding arrangements. The MOD will fund all costs associated with referrals during this period, reflecting the variability and uncertainty in this area of the SSRO's statutory functions.

The mitigation in place allows us to plan resources effectively to deliver our functions and execute our corporate plan, while also allowing flexibility to react to the different scenarios identified. This will be reviewed on an ongoing basis. Initial resource plans have been based on a flexible and agile approach that can adapt to potential different scenarios. We have agreements in place with existing suppliers to react to temporary workload variations. Our pilot database system and long term plans for the system are again based on a flexible and scalable solution.

Section 4: Business plan

The SSRO delivered its first Annual Report and Accounts in July 2015, amid the continuing challenge of establishing a new organisation. The accounts received a clean audit opinion from the NAO, and showed that the SSRO delivered its statutory functions within the funding envelope, incurring £1.4 million of expenditure against Grant In Aid funding from the MOD of £1.6 million.

The SSRO agreed expenditure plans for 2015/16 with the MOD based on a funding level of £4.7 million, along with the utilisation of the £0.2 million underspend brought forward from the previous year. The table below sets out how this funding is expected to be spent. The 2014/15 figures represent part year costs only as the SSRO became operational in the last quarter of the period. The 2015/16 costs will be for the first full year of operation, although will still include some one off and transitional expenditure.

	2014/15	2015/16 Forecast
Running costs		
Staff	384	3,012
Accommodation	236	532
IT	155	359
Legal and professional fees	174	286
Other supplies and services	83	185
Total running costs	1,032	4,374
One-off costs		
Office	342	45
IT	33	309
Regulatory database	0	217
Total one-off costs	375	571
Total costs	1,407	4,945
Agreed MOD funding	1,648	4,945

The expenditure above does not include costs associated with referrals or any other work commissioned by the Secretary of State from the SSRO. The SSRO will be funded separately for additional costs incurred in carrying out such work.

The SSRO has established robust policies, procedures and processes across finance, governance, human resources and IT. These have been subject to review by the Audit Committee and our auditors.

These are considerable achievements and have placed the SSRO in a strong position to meet the challenges of delivering its aims and objectives over the next three years. As set out in the table below the SSRO will reach a steady state over the next 12 months with permanent staffing in place, overheads becoming fixed and a gradual phasing out of those one off costs associated with the establishment of the organisation (primarily accommodation, IT infrastructure and our regulatory database).

The budget for 2016/17 has been agreed with the MOD. Expenditure and funding beyond 2016/17 is expected to increase in line with inflation with transition and one-off costs diminishing.

	2016/17	2017/18	2018/19
Running costs			
Staff	3,820	3,858	3,897
Accommodation	564	578	592
IT	420	432	436
Legal and professional fees	200	206	208
Other	244	251	254
Total running costs	5,248	5,325	5,387
One-off costs			
IT	100	0	0
Regulatory database	200	0	0
Total one-off costs	5,548	5,325	5,387

Note: Staff costs increased by 1 per cent year on year in line with government guidance. Accommodation costs increased as per the lease. All other costs increased in line with most recent projections of the consumer price index (CPI) as published by the Office for Budget Responsibility. CPI projections used are 1.8 per cent in 2017/18 and 1.9 per cent in 2018/19.

