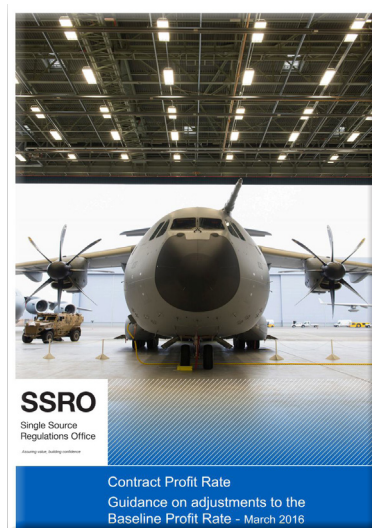
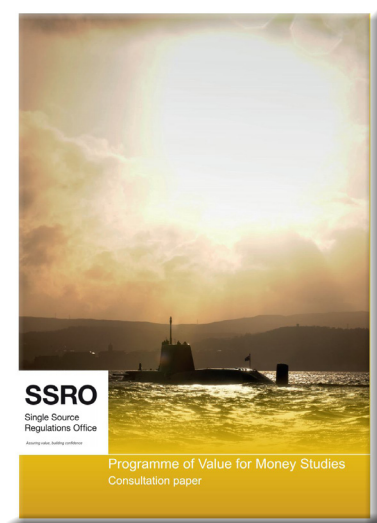
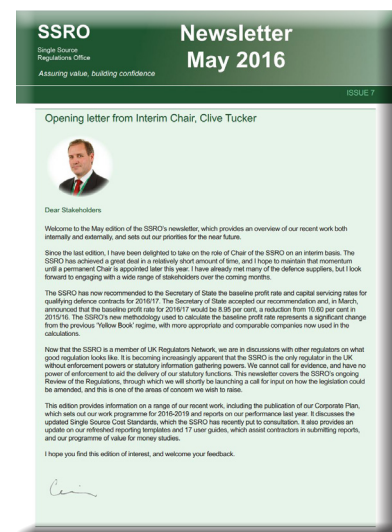
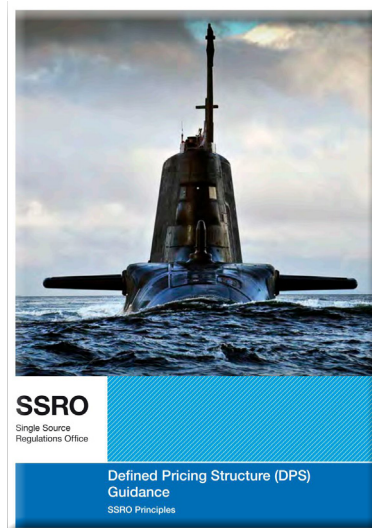


# SSRO

Single Source  
Regulations Office

Single Source Regulations Office

# Annual Report and Accounts 2015/16



*Assuring value, building confidence*



# The Single Source Regulations Office

Annual Report and Accounts 2015/16

Presented to Parliament pursuant to Paragraph 13 (5) of Schedule 4 of the Defence Reform Act 2014.

Ordered by the House of Commons to be printed on 5 July 2016.



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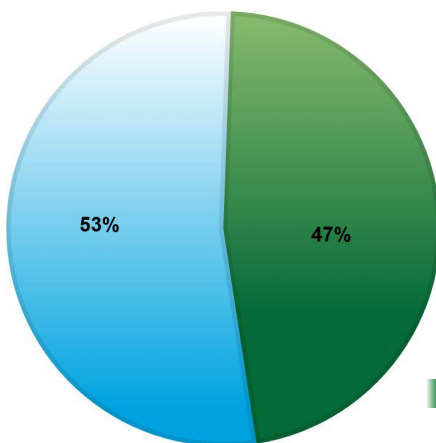
# Foreword from the Accounting Officer

*Marcine Waterman*

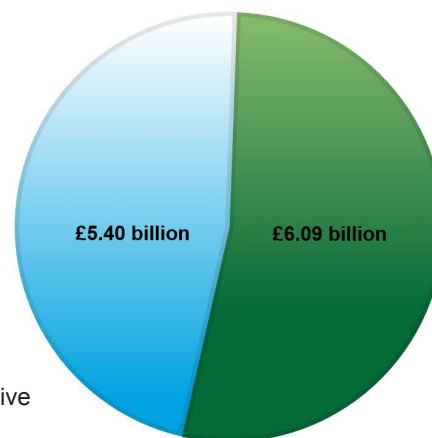
The SSRO regulates the UK government's procurement of 'single source', or non-competitive, military goods, works and services. It is the independent statutory regulator of single source defence procurement, issuing statutory guidance, assessing compliance and determining how the regime applies to individual contracts.

Single source procurement in defence is an important and significant area of expenditure, representing 53 per cent of the value of new Ministry of Defence (MOD) contracts placed in 2014/15.

Percentage of new MOD HQ contracts placed 2014/15



Value of new MOD HQ contracts placed 2014/15



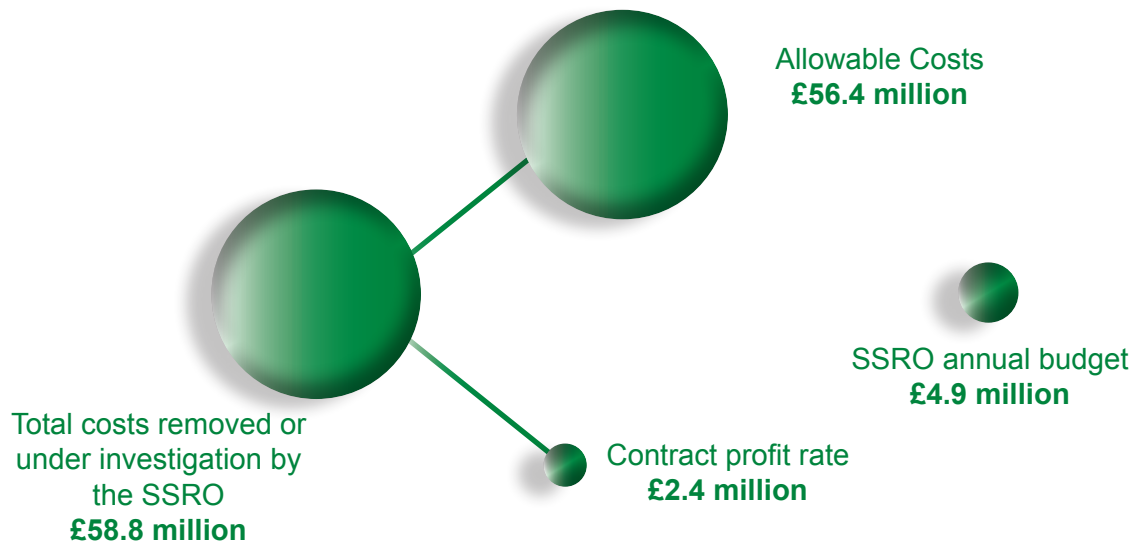
■ = competitive  
■ = non-competitive

The MOD spent approximately £8.3 billion on all its single source contracts in that year – a figure that should increase in future as a result of the additional investment in equipment set out in the November 2015 Strategic Defence and Security Review.

In its second annual report and accounts, the SSRO reports on its performance in 2015/16 as it worked towards the full implementation of the regime established by the Defence Reform Act 2014 (the Act).

The Act set two statutory aims for the SSRO. The first is to ensure that good value for money is obtained for the UK taxpayer in MOD expenditure on non-competitive 'qualifying defence contracts' (QDCs); the second is to ensure that single source suppliers are paid a fair and reasonable price under QDCs.

The new regime has the potential to achieve substantial savings that can be reinvested elsewhere in defence. In 2015, the SSRO identified over £58.8 million of costs that have now been removed from contracts or are under investigation, from 20 of the 34 QDCs notified to it, compared to its annual running costs in 2015/16 of less than £5 million. The costs under review may, depending on the outcome of investigation, result in further costs being removed or adjustments to contract pricing.



The SSRO has received notification of 31 QDCs and 3 qualifying sub-contracts (QSC) during 2015/16. This is a lower volume than anticipated, and the SSRO has made efforts this year to highlight the benefits of contracts falling within the new regime. The SSRO's view is that all non-competed defence contracts should be subject to the single source procurement regime, to deliver the greater scrutiny, transparency and improved value for money that it offers.

The MOD has signalled that it is "fully committed to subjecting as much of the Department's spend to the regulations as [it] can" (Minister of State for Defence Procurement written response to a letter from the Defence Committee, November 2015). The SSRO welcomes the MOD's commitment in this regard and encourages both the MOD and suppliers to assist in maximising the defence budget and ensuring value for money for the taxpayer by subjecting more contracts to the regime through mutual agreement.

The SSRO seeks to ensure good value for money and a fair return to industry through its functions, including the annual review of the baseline profit rate and capital servicing rates for QDCs and QSCs. In 2015/16 we undertook a fundamental review of the methodology used to calculate the baseline profit rate - the starting point for agreeing the profit awarded on QDCs and QSCs. This resulted in a methodology that considers the profits achieved by a more international and appropriate range of companies than was previously the case. Having applied this new methodology, we recommended to the Secretary of State in January 2016 that the baseline profit rate for QDCs signed from 1 April 2016 should be 8.95 per cent. The equivalent figure for 2015/16 was 10.60 per cent.

*"I am today announcing that I have set the baseline profit rate for single source defence contracts at 8.95% in line with the rate recommended by the Single Source Regulations Office (SSRO)... Taxpayers can be confident that we are getting value for money for single source defence contracts as we deliver our £178 billion equipment programme. This profit rate provides a fair return to industry while delivering savings that will be reinvested in defence."*

**Written statement by Secretary of State for Defence, 14 March 2016**

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Through our compliance work, we have challenged costs that have been claimed by industry that are not 'Allowable' according to the principles set out in the SSRO's statutory Single Source Cost Standards guidance. Examples of such non-Allowable costs include faulty workmanship resulting in rework; contingency funding not actually used; and marketing costs incurred on export campaigns in anticipation of future sales that might not materialise. Our first annual Compliance Report, published in January 2016, highlighted these and similar examples, and found that contractors were generally willing to remove non-Allowable Costs challenged by the SSRO.

Also in 2015/16, the SSRO issued one opinion and received one request for a determination, following referrals from the MOD and industry respectively. The 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. In its final issued opinion, the SSRO identified significant cost savings for the taxpayer and set out its considered view on the issues referred, including the methods used for assessing a value of risk, the proposed wage inflation uplift and learning curve benefits. The subject of the referral for a determination was the extent to which sales and marketing costs provided in the contract between the MOD and Rolls Royce to provide support for the engines that power Hawk jet aircraft are Allowable Costs, and whether the appropriate amount of cost risk adjustment had been agreed when determining the contract profit rate. The final determination will be issued in the 2016/17 financial year.

Through its work, the SSRO seeks to provide certainty and clarity to industry and the MOD. 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 credible and sustainable method of procurement that can deliver value for money. In all its decisions, the SSRO equally considers both its statutory aims.

*"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, Daily Telegraph, 13 September 2015**



Throughout the year, we have continued our active programme of stakeholder engagement, meeting regularly with contractors to discuss issues on individual QDCs and to help them deliver their obligations under the regime. We have held meetings of the SSRO Senior Stakeholder Forum and the Operational Working Group, involving colleagues from across industry and government; have consulted widely on our statutory documents; and have visited the facilities of many of the prime contractors.

The SSRO is required to carry out continuous assessment of compliance with the Regulations under the Act, Regulations and its Framework Document with the MOD. The SSRO is committed to help contractors and the MOD meet their obligations wherever possible, rather than simply monitoring compliance and reporting on it afterwards. We have devoted time and resources to help build understanding of what is required through the Regulations and we have already seen an improvement in understanding of the Regulations and consequently compliance with the Regulations by the MOD and contractors.

One of industry's main concerns is that the cost information they provide to the SSRO should be collected, processed and stored securely. Following an open procurement exercise, we appointed an external service provider to work with us to develop a pilot for a secure database to collect, hold and analyse this information. The pilot system was developed and became operational in the course of the year, capable of accommodating the necessary volume of reports from industry. We worked closely with both the MOD and early QDC contractors throughout 2015/16 to ensure the process was efficient, secure and effective.

As the expert regulator of the single source procurement regime, the SSRO seeks to champion the regulatory framework, operating independently, transparently and with professionalism. We have worked with other regulators and comparable international organisations throughout the year to understand and draw on the lessons of effective regulation. We are now a member of the UK Regulators Network (UKRN) and 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.

We have also successfully made the case to become a 'Prescribed Person' under the Public Interest Disclosure Act (PIDA), able to receive qualifying disclosures from whistleblowers who work for industry, the MOD and third parties.

*"I am very pleased to welcome the SSRO as a new member to the UK Regulators Network. The purpose of UKRN is for regulators to work together to maximise coherence and shared approaches in the interests of consumers and the economy. The SSRO is a valuable addition and brings extensive skills and knowledge, I am sure they will equally benefit from joining an already thriving network."*

**Cathryn Ross,  
UK Regulators Network**

The SSRO has sought good value for money through its own conduct, by being efficient and economic with its own resources. In 2015/16 we completed the recruitment of staff, and now have a complement of 31 staff. Our expenditure for 2015/16 was contained within our agreed funding for 2015/16, including an amount brought forward from the previous year, of £4.945 million. As the SSRO builds on the foundations laid in its inaugural year we will strive to maintain continued levels of success and impact. This will become more challenging as QDC and referral numbers increase, with work continuing with the MOD and industry to address and improve matters of regime compliance. While our core infrastructure and resources are now largely in place, these will be kept under review to ensure the demands placed on the SSRO can be met in order that the regime can play its full part in delivering value for money for the taxpayer and ensuring a fair return for industry.

*“We have carried out reforms to create more efficiency and greater transparency on costs. The 2013 White Paper Better Defence Acquisition and the subsequent Defence Reform Act 2014 have significantly changed the way the MOD undertakes single source, non-competitive procurement with the establishment of the Single Source Regulations Office (SSRO) as an independent regulator. The Successor submarine and Type 26 Global Combat Ship programmes will be the first major projects delivered through single-source contracts overseen by the SSRO.”*

**Strategic Defence and Security Review, 2015**

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Throughout 2015/16 the SSRO made significant progress against its aims and, in doing so, has established itself as the leading independent voice in the defence commercial landscape. This progress would not have been possible without the direction and dedication of our first Chair, Jeremy Newman. Jeremy set the course for the organisation, and put in place the arrangements that has enabled the SSRO to play its role confidently against a challenging backdrop. Having established and delivered the initial priorities for the SSRO, Jeremy resigned and left the SSRO in late 2015/16. We express our gratitude for his work and vision in establishing the organisation and managing its growth into an effective and fully operational regulator. In doing so, he was supported by the other non-executive members of the Board, Clive Tucker (now interim Chair), Jane Attwood and Marta Phillips, who continue to make important and often complex decisions that are necessary in the achievement of our statutory aims.

*“In a short time, though, the SSRO has become a key player in the defence sector here.”*

**Defense News, 15 May 2016**

**Marcine Waterman**  
**Chief Executive**



# Performance report

# Our activities in 2015/16

## Purpose of the activities of the SSRO

The Defence Reform Act 2014 received Royal Assent on 14 May 2014, and the Single Source Procurement Regime came into force in December 2014 following Parliamentary approval of the Regulations relating to the Act. The Act brought into force significant changes to the way the UK government procures defence equipment and services for its armed forces.

The Act also established the Single Source Regulations Office, the independent statutory regulator of 'single source' defence procurement. Single source contracts relate to the delivery and servicing of highly specialised defence capability for the UK's armed forces, mostly large-scale, technically complex, and involving a degree of commercial risk. 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 services have specialised or unique characteristics; or
- there are issues of national security.

The MOD has estimated that savings of up to £200 million a year could be achieved through the single source regulatory framework brought into effect by the Act.

## Our role

The Act sets two aims for the SSRO, which are to ensure that:

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.

The SSRO fulfils this purpose through a number of activities, which are set out in the Act and the Framework Document between the SSRO and MOD. These functions include:

- Providing opinions and legally binding determinations in response to referrals from the MOD, contractors and subcontractors. Should parties be unable to agree on an issue, either before a contract has been entered into or thereafter, they can make a referral for an opinion or determination to the SSRO.
- Assessing the baseline profit rates, capital servicing rates and the SSRO funding adjustment, for recommendation to the Secretary of State. The SSRO must recommend the baseline profit rate and capital servicing rates to the Secretary of State by 31 January each year.
- Issuing statutory guidance for use by the MOD, contractors and subcontractors on the baseline profit rate and adjustments used to determine the contract profit rate; the principles that contractors and the MOD must have regard to when determining whether costs are Allowable under QDCs and qualifying QSCs; and determining the amount of a penalty for use by the Secretary of State.
- Publishing reporting templates and user guides that set out the reporting requirements for primary contractors relating to QDCs and QSCs.
- Providing detailed Defined Pricing Structure templates to capture the cost breakdown for different types of defence equipment, which allow cost information to be collected to enable future analysis, while assisting effective contract monitoring.
- Providing independent insights into single source defence contracts, that enable prices to be estimated, contracts negotiated and projects managed in a more informed and effective manner.
- Keeping the Act and the Regulations under review, and publishing its findings and recommendations to the Secretary of State for him to have regard to when deciding whether to alter the existing statutory framework.
- Assessing compliance with the Act and Regulations, including through the annual Compliance Report.
- Maintaining a database of reported information on QDCs.

## Chief Executive's perspective on performance

Over the course of 2015/16, the SSRO has worked to become the established regulator and the independent voice in the defence procurement landscape, capable of delivering real change within the sector. We are also an organisation that is continually seeking to improve and draw on lessons and best practice from other comparable organisations and sectors, both in the UK and internationally.

The SSRO's performance against its objectives and key performance indicators (KPIs) are considered at length in the section of this report entitled 'How performance is measured and how the SSRO did against these measures'. The section shows that, while the SSRO's KPIs are set across a three-year period, it is on track to meet all objectives set in its Corporate Plan 2015-2018, which I believe is a considerable achievement for a recently established organisation, with minimal resources.

The SSRO has made significant steps in a range of areas, including its:

- **Statutory functions.** Having been established in late 2014, the SSRO has in the course of the review period undertaken many of its statutory functions for the first time, attracting a good deal of interest in its work and challenge from those it regulates. It has delivered on each of its statutory functions to the relevant timescales and to a consistently high quality, while retaining its focus on its two statutory aims and its stated values of being transparent, professional and independent.
- **Systems.** The SSRO has put in place appropriate systems and processes to ensure that it delivers its statutory and other functions. It has for example developed a secure and accredited pilot Defence Contracts Analysis and Reporting System, working with the MOD and industry, to receive the reports that contractors are required to submit under the Act. While we have no express duty to consult on, for example, our baseline profit rate or compliance methodologies, we have sought to do so wherever possible; transparency is one of the core values that the SSRO Board has set, and is included as such in our Corporate Plan.
- **Resourcing.** The SSRO's first permanent member of staff started work at the end of February 2015; by the end of 2015/16 reporting period the SSRO had 31 staff in post. All SSRO employees recruited in the period are high calibre, with relevant skills and experience across a range of specialisms. 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. We have procured a legal support framework contract. Other framework contracts will be established as necessary to ensure resilience and access to necessary expert support.
- **Engagement.** We have put into action our stakeholder engagement strategy, meeting regularly with industry and the MOD. We have held meetings of the SSRO Senior Stakeholder Forum and the Operational Working Group; have consulted widely on key documents; have held meetings to discuss issues on individual QDCs; and have visited the facilities of many of the prime contractors. We have also sought to engage more widely, for example with comparable international organisations, other regulators, think tanks, Parliamentarians and other government departments.

**Visits to industry facilities by the SSRO in 2015/16**



Key  
 ● = visits by Board members  
 ● = visits by SSRO staff

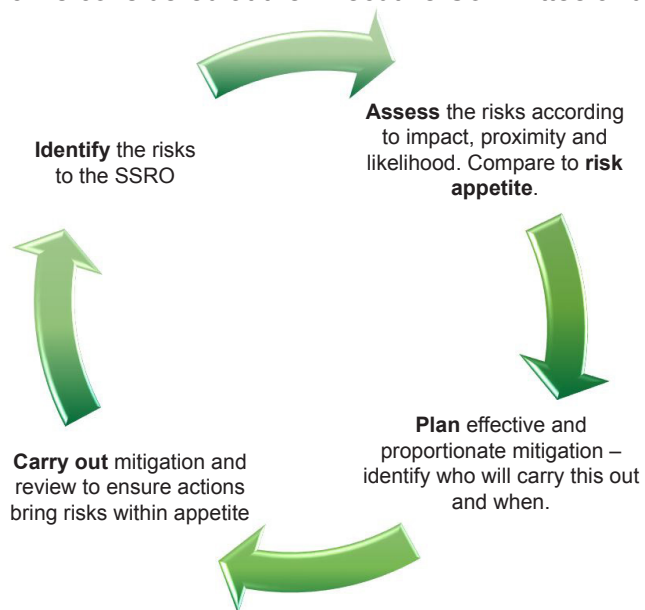
**Key issues for the SSRO**

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 Board has considered and set its risk appetite and established a risk management framework. The SSRO assesses risks against its appetite, and operates controls to manage or mitigate the identified risks. The controls include a Corporate Risk Register, which is considered at the Executive Committee and overseen by the Audit Committee.

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 its Corporate Plan. The most significant risks that may impact on the SSRO are related to:

- the SSRO's independence; and
- a higher workload than expected, resulting in insufficient resources.





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 MOD and SSRO. 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 its work. The SSRO is mindful of this risk and is seeking to mitigate it in a number of ways, including through stating its findings in a transparent way and seeking to review existing arrangements. It has recently been announced for example that the Single Source Advisory Team, the SSRO's main contact in the MOD which is responsible for the SSRO's budget and reporting, will in future report to the MOD's Director General Finance. It had previously sat within Defence Equipment and Support, the bespoke trading entity that is regulated by the SSRO.

As the SSRO builds on the foundations laid in its inaugural year we will strive to maintain continued levels of success and impact. This will become more challenging as QDC and referral numbers increase and we continue to work with the MOD and industry to address and improve matters of regime compliance. While our core infrastructure and resources are now largely in place, these will be kept under review to ensure the demands placed on the SSRO can be met in order that the regime can play its full part in delivering value for money for the taxpayer and ensuring a fair return for industry. We have mitigated the risk to date through cross team working and the deployment of temporary resources. Our resource plans have been based on a flexible and agile approach so that the organisation can adapt to emerging workload scenarios. We have flexible framework contracts in place to source additional support if required to allow the SSRO to react to temporary work-load variations. The MOD will fund all additional costs associated with referrals, reflecting the variability and uncertainty in this area of the SSRO's statutory functions. We have agreed with the MOD that should QDC volumes or other regulatory functions require additional capacity or resources we will revisit funding arrangements. Our pilot database system and long term plans for the system are again based on a flexible and scalable solution. However, as workload increases and there are fewer discretionary resources, there is a significant risk that it will become more difficult to address resource gaps.

Over the course of the next year the SSRO will undertake several significant pieces of work, which include:

- issuing its first determination on the contract between the MOD and Rolls Royce to provide support for the engines that power Hawk jet aircraft;
- publishing the updated Single Source Cost Standards;
- recommending multiple baseline profit rates and capital servicing rates for 2017/18;
- publishing a Compliance Report to measure industry and MOD compliance with their duties and obligations under the Act and Regulations;
- continuing with the SSRO's review of the Act and Regulations, with the commencement of a two stage consultation process on our recommendations;
- undertaking the VFM studies set out in its published programme; and
- analysing the information provided by industry under QDCs.

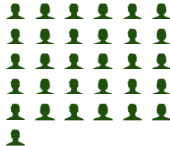
## Performance summary

### SSRO'S STRATEGIC OBJECTIVES

1. Be a fair and transparent adjudicator between the MOD and industry
2. Issue authoritative and impartial rates and guidance
3. Use the data provided to us to analyse the impact of the regulations
4. As an expert on single source procurement, keep the Defence Reform Act and Regulations under review
5. Be a good employer and value our people
6. Be financially responsible and target our resources where they will have greatest public benefit

### PEOPLE

The SSRO has 31 staff members



**31**  
Qualifying defence contracts

### SOCIAL MEDIA

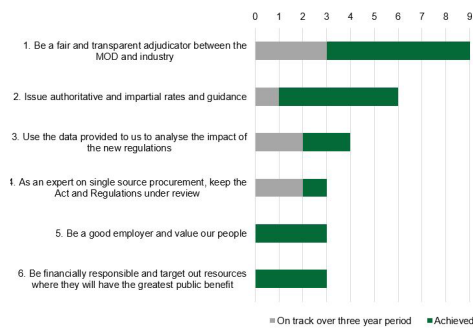


FOLLOW US ON:  
TWITTER  
LINKEDIN  
FACEBOOK  
WEB HITS **85,275**

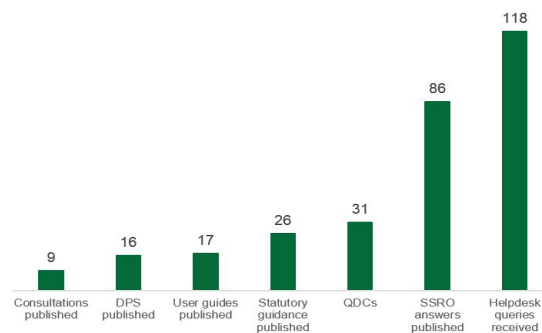
### WORK PROGRAMME MILESTONES

SSRO Timeline	April -June 2016	July -Sept 2016	Oct -Dec 2016	Jan -Mar 2017
VFM study on wage inflation - evidence gathering	■			
Single source cost standards - public consultation	■			
Review of Regulations - stakeholder engagement		■		
VFM study on wage inflation - publication		■		
Single source cost standards published		■		
Discussion paper on when to single source - publication		■		
Baseline profit rate preparation for 2017/18		■		
Review of Regulations - public consultation				■
Baseline profit rate to Secretary of State for Defence				■
Annual Compliance report				■

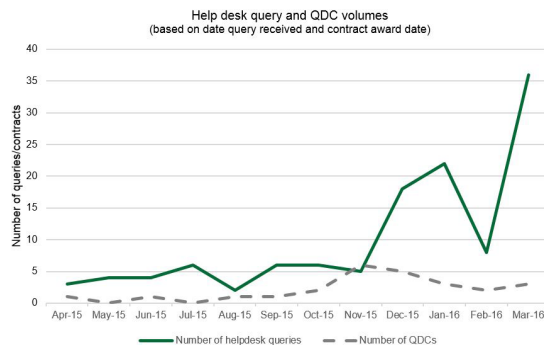
### KEY PERFORMANCE INDICATORS



### SSRO PUBLICATIONS

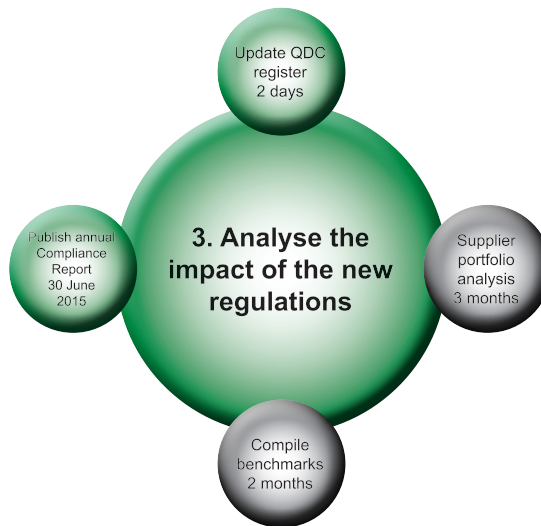


### RESPONDING TO QUESTIONS



## SSRO's performance

The SSRO's corporate objectives and underlying KPIs have been met to the extent that they can be measured as at 31 March 2016. The chart below provides a summary of how the SSRO has performed against the KPIs that measure its six objectives.



**Key:**

● = achieved   ● = in progress

# Performance analysis

## SSRO's key measures

The SSRO's Corporate Plan 2015-2018 was published in June 2015, following a consultation on its content with the MOD and industry. The Corporate Plan includes six corporate objectives for the SSRO, which are set out below.



The Corporate Plan 2015-2018 also includes a set of 28 key performance indicators, against which the SSRO measures its performance.

## How performance is measured and how the SSRO did against these measures

The SSRO's Executive Committee monitors performance monthly against each of its objectives, as well as the SSRO's general performance, through the regular Corporate Performance Report. The Corporate Performance Report is also reviewed by the SSRO Board at each meeting.

Out of a total of 28 key performance indicators in place in 2015/16, 71 per cent (20) were delivered in full and 29 per cent (8) were on track to be delivered across the period of the Corporate Plan. No key performance indicators due for completion in 2015/16 have failed to be delivered.

A detailed narrative against each of its objectives is set out in turn below.

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

The SSRO provides opinions and legally binding determinations in response to valid referrals from the MOD, contractors and subcontractors. At the end of 2015/16, the SSRO had issued one opinion and received one request for a determination.

### SSRO opinion



In August 2015, the SSRO received a request for an opinion in respect of a proposed QDC under Section 35(1) of the Act and Regulation 51(1)(d) of the Single Source Contract Regulations 2014. The referral sought the SSRO's opinion on the extent to which specified costs were Allowable, as well as additional guidance to that contained in the SSRO's Single Source Cost Standards.

Following receipt of the request for an opinion, the SSRO acknowledged the request within two working days and formally accepted the referral within 20 working days, having conducted due diligence in line with its guidance. The SSRO appointed a Referrals Committee, a sub-committee of the SSRO Board comprising two non-executive members and an independent member who is not a member or employee of the SSRO, to consider the referral. The

SSRO issued its opinion within 40 working days, and published an anonymised summary of the opinion in November 2015.

Following the completion of the referral, the SSRO conducted a lessons learned exercise with all parties. As a result of this review, the SSRO amended its referrals process and published separate procedures for opinions and determinations on 5 February 2016.

In December 2015, the SSRO received a request for a determination under the Act and the Regulations on what costs are appropriate for a contractor to pass on to the taxpayer. The ruling related to a £70 million contract awarded to Rolls Royce in December 2015 to provide support for the engines which power Hawk jet aircraft, including those flown by the RAF aerobatic team, the Red Arrows. The contract was awarded on the condition that the SSRO's verdict was sought on two issues: the extent to which sales and marketing costs could be included and whether the level of cost adjustment for risk was appropriate. We acknowledged the request within two working days, and formally accepted the referral within 20 working days. The five month timeframe for issuing a final decision on the determination did not expire until June 2016, and therefore the SSRO's successful performance against this KPI will be reported in the next financial year.

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.

We are required to report on the organisation's handling of qualifying disclosures in our Annual Report and Accounts. To date, no such disclosures have been made.

The KPIs in place to measure performance against this objective in 2015/16 are set out in the table below. These KPIs are taken from the SSRO's Corporate Plan 2015-2018 and are measured against a three-year timeline, as required in the SSRO's Framework Document with the MOD. An indication is given of performance towards the KPI in 2015/16:



What is being measured	Target (2015-2018)	Performance
The SSRO will acknowledge receipt of a referral within 2 working days	100 per cent	Delivered in full
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
The SSRO will conduct all requests for an opinion within 40 working days	90 per cent	Delivered in full
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 and above	Delivered in full
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 and above	Delivered in full
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 and above	Delivered in full
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 from the parties.	90 per cent and above	On target
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
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

## Objective 2: Issue authoritative and impartial rates and guidance

Under the Act, the SSRO is required annually to review the baseline profit rate and capital servicing rates for QDCs and QSCs. The SSRO must recommend the rates to the Secretary of State by 31 January each year.

### Baseline profit and capital servicing rates methodology



In 2015/16, the SSRO undertook a fundamental review to develop a more robust and transparent methodology for calculating the baseline profit rate and capital servicing rates than was previously used. This included a review of the previous methodology undertaken by the Review Board for Government Contracts under the 'Yellow Book' regime. The review focused on the issues of comparability and how to benchmark profits on QDCs against profits achieved by more appropriate comparators from wider industry.

Following the review, the SSRO developed a new methodology under which the rate is determined by considering the profit rates achieved by a more international and appropriate range of companies. Previously only companies headquartered in the UK were considered, including some with little or

no relevance to the work undertaken by defence contractors. The changes to the methodology were the most far-reaching since the 1960s.

The SSRO sought to ensure that as many different people and groups as possible had the opportunity to contribute views by running a public consultation on its proposals from 25 September 2015 until 20 November 2015. The methodology was also discussed at the SSRO's Senior Stakeholder Forum and was promoted through our stakeholder newsletter. Following the consultation, the SSRO published its final methodology used to calculate the baseline profit rate on 21 January 2016.

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 guidance that the methodology used to calculate profit rates for UK single source contracts "should be such that it would result in the setting of a single baseline profit rate" in 2016/17. The Secretary of State's letter stated however that "the Department supports the principle that multiple baseline profit rates better reflect the risk and reward balance in defence single source contracts". The SSRO will work towards having multiple profit rates in future, for adoption first in 2017/18.

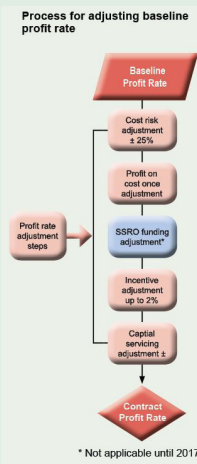


On 29 January 2016 the SSRO delivered its key performance indicator of making recommendations to the Secretary of State on the baseline profit rate and capital servicing rates before 31 January each year. On 14 March 2016, the Secretary of State announced that he accepted the SSRO's recommendation of a baseline profit rate of 8.95 per cent for single source defence contracts in 2016/17. While lower than the baseline profit rate applied in the previous year, the SSRO considers the methodology to be more appropriate than that previously used, and the rate more representative of the profits achieved in other comparable industries and by defence companies internationally.

## Contract profit rate guidance

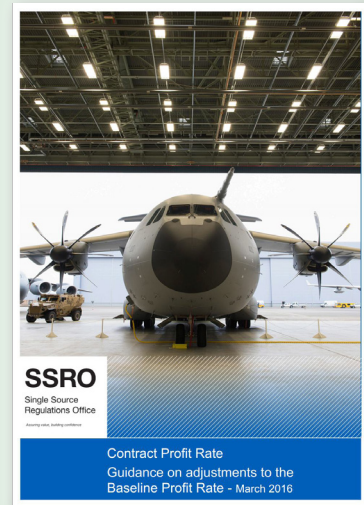
The Act requires the SSRO to issue guidance for use by the MOD, contractors and subcontractors. Taken together, our guidance forms a single point of reference for all stakeholders to establish whether their actions comply with the Act and Regulations, and there is a legal requirement to have regard to guidance issued by SSRO.

Section 18 of the Act requires the SSRO to issue guidance in relation to the baseline profit rate and adjustments used to determine the contract profit rate.



The guidance covers the six steps set out in Section 17(2) of the Act. The SSRO originally issued such guidance in March 2015, and the consultation on the baseline profit rate methodology stated that the SSRO would update the document so that it reflected the changes made following the SSRO's fundamental review.

The SSRO ran a consultation on the updated contract profit rate guidance from 25 January 2016 to 29 February 2016. This consultation timetable was truncated because of the receipt of statutory guidance from the Secretary of State regarding the baseline profit rate. The SSRO published *Contract Profit Rate: Guidance on adjustments to the Baseline Profit Rate* on 24 March 2016.



The SSRO is also required to issue guidance on 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. Work commenced in 2015/16 to update the guidance, in light of the SSRO's experience to date, and feedback we have received through meetings with industry and our Helpdesk. An updated version of the guidance will be issued for consultation in 2016/17.

The Act provides for a statutory obligation on qualifying defence contractors and qualifying sub-contractors to provide a range of reports from the time a contract is entered into through to the date it is completed. On 13 May 2015, the SSRO published six report templates and 17 user guides to provide parties with a simple and standard means of reporting. The SSRO reviewed these guides throughout the financial year, considering lessons learnt and contractor feedback from the first 60 statutory reports received. The updated guides and reports will be published in the first quarter of 2016/17.

## Helpdesk and SSRO Answers

1.6 Do the Single Source Contract Regulations apply to overseas companies?  
 Yes. There are no exclusions to the Single Source Contract Regulations for contracts with overseas contractors and contracts placed under the law of other countries. Therefore all the Regulations and requirements apply to overseas companies.

1.7 What is the role of the SSRO in negotiating contracts?  
 The SSRO has no role in negotiating either QDCs or QSCs.

1.8 To what extent does the US-UK Reciprocal Defence Procurement MOU affect the need for US companies to comply with the transparency and other requirements set out in the Defence Reform Act and Single Source Contract Regulations?  
 The MOU does not take precedence over domestic law in the UK, and US companies party to qualifying defence contracts or qualifying subcontracts are subject to the same transparency and reporting requirements in the single source defence procurement legislation.

1.9 Would a contract, under which the price from the relevant contractor is compared against the price of sourcing from an in-house MOD team only, be a QDC?  
 This contract would be a QDC under the single source defence procurement legislation, provided that all other requirements (value thresholds, date, and not within the exclusions in the Regulations) are met. Benchmarking against an in-house comparator does not amount to a competitive process, as:

- a qualifying defence contract under the legislation is one where the MOD procures defence goods, works or services from another person;
- services, works or supplies from an in-house unit are not regarded as 'contracts' under other public procurement legislation in force in the UK; and
- the legislation does not define a 'competitive process'. It merely provides guidance in two sets of circumstances (one of which being where there is only one bidder in a competitive tender. It is a QDC if that sole bidder knows theirs was the only offer from that competitive tender).

1.10 Does the single source procurement framework apply to a PFIPPPP contract?  
 A public finance initiative (PFI) is a procurement method where the private sector finances, builds and operates infrastructure and provides long-term facilities management through long-term concession agreements. A public private partnership (PPP) is a contract between a public and private body.  
 The framework does apply to PFIPPPP contracts. A PFIPPPP contract could still be a contract to procure goods or services for defence purposes (Section 14 of the Act) and it does not fall within one of the carve outs in Regulation 7. It will be a QDC provided all other requirements in the single source defence procurement legislation are met (value thresholds, date of contract amendment and not within the exclusions in the Regulations).

1.11 Does equipment for use in space (i.e. beyond the atmosphere of Earth) fall under the single source procurement framework?  
 The framework covers all MOD procurement that is for 'defence or related purposes' (Regulation 3 of the Single Source Contract Regulations) that meets the other requirements of a QDC or QSC (value thresholds, date, and single source requirements).

On 1 April 2015, the SSRO launched a Helpdesk, which has proved to be a useful resource for external parties seeking clarification, advice or further information on all issues related to the work of the SSRO and its statutory functions. In 2015/16 the SSRO received 120 enquiries and responded to all within our 10 working day timeframe of receiving the question.

In addition, throughout 2015/16, the SSRO published on a monthly basis a 'SSRO Answers' document which consolidates the queries received by the SSRO and is intended to supplement our statutory guidance by providing informal clarification on questions asked by stakeholders about aspects of the Framework. This was a frequently-used resource by stakeholders with nearly 3,000 page views as of 31 March 2016.

The KPIs in place to measure performance against this objective in 2015/16 are set out in the table below. These KPIs are taken from the SSRO's Corporate Plan 2015-2018 and are measured against a three-year timeline, as required in the SSRO's Framework Document with the MOD. An indication is given of performance towards the KPI in 2015/16:

What is being measured	Target (2015-2018)	Performance
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
The SSRO will recommend to the Secretary of State adjustments to the baseline profit rate, 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
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
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
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
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

### Objective 3: Use the data provided to us to analyse the impact of the new regulations

The SSRO analyses the application and impact of the single source procurement framework. It also considers compliance with the framework 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 MOD states that the SSRO should “publish a report on an annual basis that summarises compliance by the MOD and single suppliers to the provisions of the [Act] and [Regulations]. This report will be publically available”. The annual Compliance Report is intended to be an effective tool to assess and encourage compliance with the Act and the Regulations, as well as helping to monitor how the framework is functioning and identifying areas of good practice and scope for further improvement.

From 29 June 2015 until 25 August 2015, the SSRO consulted on its methodology for considering compliance with the regime, which forms the basis of the annual Compliance Report. We analysed all responses received and were encouraged that the proposed approach was positively received. On 5 October 2015, we published our final methodology and response to the consultation.

Using its published methodology, the SSRO issued its first annual Compliance Report on 28 January 2016, covering the period from 18 December 2014 to 31 December 2015.

#### Annual Compliance Report 2015

The SSRO’s first Compliance Report found that:



- While contractors had in some cases provided insufficient information that certain costs should be included in the contract, they agreed to remove non-Allowable Costs challenged by the SSRO once this information has been provided.
- There is evidence of differing levels of knowledge and understanding of the Act and Regulations in the MOD and challenges in meeting the reporting and verification requirements. The SSRO expects, with the establishment of the MOD’s Single Source Advisory Team, the MOD’s compliance should increase significantly over 2016.

Other issues noted within the Compliance Report included:

- a lack of information on Allowable Costs in the reports submitted by industry;
- a lack of analysis of costs in labour and overhead rates;
- a lack of evidence to support the cost risk adjustment in contract profit rate;
- differences in contract value between contractor submission and MOD notification; and
- missing data from submissions, including metrics and milestones.

The SSRO acknowledges that compliance is a continuous learning process. Since the publication of our first Compliance Report, we have seen an improvement in the understanding of the Regulations and consequently compliance with the Regulations by MOD and contractors. We are committed to increasing knowledge and understanding of the Regulations among contractors through: the SSRO Operational Working Group; the SSRO reporting Helpdesk; SSRO Answers; meetings with contractors' project and finance teams; and the publication of the anonymised summary of the referral for an opinion. We have also amended the SSRO's statutory documents such as the Single Source Costs Standards and the Contract Profit Rate guidance to provide further clarity on some aspects of the Regulations, which should also help to increase understanding among defence contractors and MOD staff.

The SSRO is required to keep a record of any compliance or penalty notices issued by the MOD and act as the appeals body for suppliers seeking to dispute these notices. In 2015/16, no such notices were issued.

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 includes contract pricing type, contract duration, and contract values for each current QDC and QSC. In 2015/16, we were notified of 31 QDCs and 3 QSCs, and all were added to the register within two working days of notification.

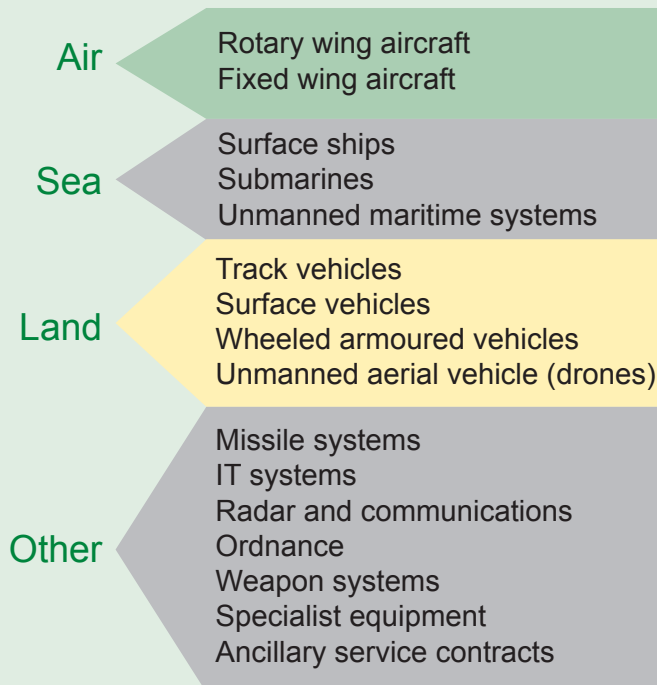
The Act places a statutory obligation on qualifying defence contractors and qualifying sub-contractors to provide specific information from the time a contract is entered into through to the date it is completed. In 2015/16, the SSRO developed a fully secure and accredited pilot Defence Contracts Analysis and Reporting System (DefCARS), working with the MOD and industry, to receive this information. DefCARS was created to enable defence contractors to upload reports and returns in order to comply with the requirements of the Act. The aim of DefCARS is to enable reports and returns to be uploaded in a secure environment in accordance with the Regulations and enable the SSRO to carry out its statutory and regulatory functions of validation, analysis and compliance, in order to inform how the MOD can become a better buyer. The SSRO's pilot system of DefCARS went live on 30 June 2015, and the SSRO worked with industry and the MOD throughout the year to pilot the database against our reporting and security requirements. The SSRO is examining options to procure a successor system in 2016/17.

## Defined pricing structure (DPS) guidance and templates



The SSRO published guidance in June 2015 setting out the principles to be followed by the contractor when completing the DPS for a QDC or QSC. These principles present the direction for effectively preparing, understanding and presenting a DPS.

Working with industry and the MOD, we provided a full set of Defined Pricing Structure (DPS) templates in 2016/17. 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 QSC. The DPS templates, which were all published in December 2015, were for the equipment types set out below.



One of the SSRO's functions is to analyse the reports submitted by industry into the DefCARS database, using a range of evidence and generating 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. In the course of the year, the SSRO did not receive a sufficient number of supplier reports to conduct comparative analysis under the KPIs of "producing supplier portfolio analysis", but will be in a position to do so over the duration of the Corporate Plan. It also did not receive any requests for "compiling defence benchmarks and parametrics".

This is complemented by a programme of value for money studies, which will consider issues that might identify the potential for savings and increased value for money, as well as share best practice.

In addition, the SSRO can receive requests to provide independent insights for the Secretary of State for Defence, funded under Section 37 of the Act. We received one such request in 2015/16, with the Secretary of State commissioning the SSRO to carry out research into current and future wage inflation in single source contracts. The research, which commenced in quarter 4 of this year, is assessing wage inflation in the context of the defence industry, and in comparison to similar occupations and industries and the wider UK economy, and how this has changed over time. The SSRO may suggest potential improvements to evidence required or guidance provided in this area, and will also look at how the MOD assesses the evidence provided. We will be reporting our findings to the Secretary of State in the summer of 2016.

Such work is also separate to any potential requests from industry 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. No such requests were received in 2015/16.

## Value for money studies



The SSRO's Corporate Plan 2015-18 sets out how it will contribute to its first statutory aim by conducting analytical work that supports the MOD and industry to deliver good value for money. Our analytical work will use a range of evidence and will generate comparative management information and defence benchmarks and parametrics to help drive improvements. Our work includes a programme of value for money studies, which enable us to comment on value for money issues, identify the potential for savings and facilitate the sharing of best practice where appropriate.

The SSRO consulted on its proposed programme of value for money studies between 30 October 2015 and 18 December 2015, and published its final plan, and response to the consultation, on 22 February 2016.

The SSRO is planning to undertake the following VFM studies from 2016/17. The Secretary of State for Defence may also request the SSRO to provide independent insight, funded under section 37 of the Act. The SSRO's current study on wage inflation in single source contracts was requested by the Secretary of State under this section of the Act.

- The treatment of inflation in single source contracts
- Wage inflation in single source contracts
- Overhead rates used in delivery of single source contracts
- Cost of the back office
- Consideration of risk in single source contracts
- Procurement and contract management processes

The KPIs in place to measure performance against this objective in 2015/16 are set out in the table below. These KPIs are taken from the SSRO's Corporate Plan 2015-2018 and are measured against a three-year timeline, as required in the SSRO's Framework Document with the MOD. An indication is given of performance towards the KPI in 2015/16:

What is being measured	Target (2015-2018)	Performance
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 publically no later than 31 January each year.	100 per cent	Delivered in full
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
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
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



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

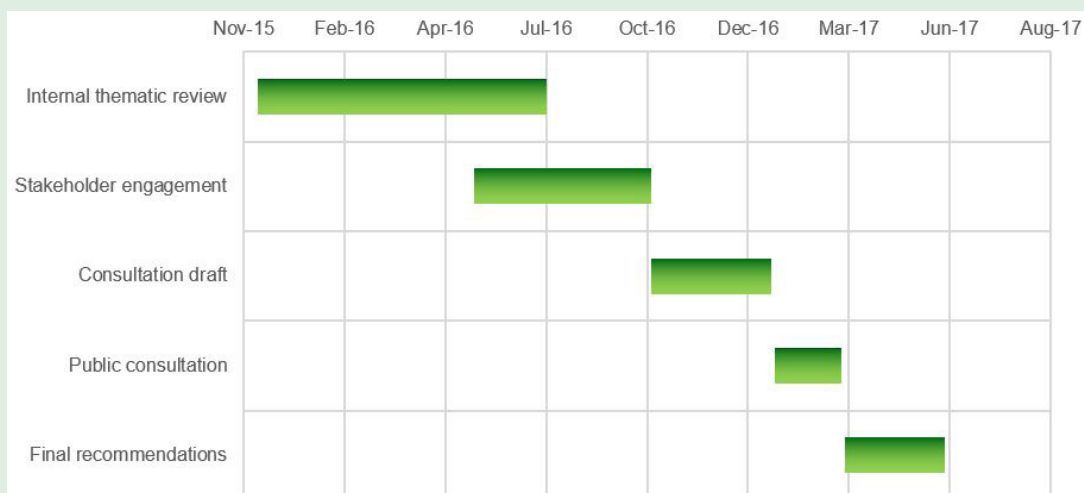
The SSRO is required to periodically review the Act and Regulations, and to present its recommendations for alteration of the existing framework to the Secretary of State.

### Review of the Regulations

The Act requires the Secretary of State to review Part 2 of the Act and the Regulations, with the initial review 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 Friday 16 June 2017 at the latest.

The SSRO Board has overall responsibility for keeping the legislation under review, and has this year agreed a timetable, project plan and governance arrangements for the work through its Regulatory Review Committee. The SSRO has made good progress over the course of 2015/16 to deliver its KPIs against this objective, which must be delivered in full over the Corporate Plan period 2015-2018.



The SSRO has also in 2015/16 fostered close ties with other regulators, and built successful relationships with comparable organisations internationally. We have worked with others to understand lessons from single source procurement in other sectors and countries. The SSRO has for example joined the UK Regulators Network in 2015/16, and has engaged other organisations in work on what lessons can be learnt from single source procurement.

The KPIs in place to measure performance against this objective in 2015/16 are set out in the table below. These KPIs are taken from the SSRO’s Corporate Plan 2015-2018 and are measured against a three-year timeline, as required in the SSRO’s Framework Document with the MOD. An indication is given of performance towards the KPI in 2015/16:

What is being measured	Target (2015-2018)	Performance
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
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
We will undertake work with regulators in other sectors to consider, among other issues, what lessons can be learnt from single source procurements 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

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 the end of 2015/16 we completed the recruitment of 31 permanent staff to the organisational structure agreed by the Board. This allows the SSRO to further grow and develop its internal capacity and expertise, reducing the reliance on external support.

The SSRO Board has identified the need for additional non-executive Board member capacity, and recruitment for additional members commenced in 2015/16. The successful applicants will join the Board in the first half of 2016/17.

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, 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.

There have been three voluntary resignations in 2015/16. The SSRO aims to be an employer of choice and maintain staff continuity. It has a target for voluntary resignations of less than 10 per cent of staff and 3 resignations is within this.

Over the course of 2015/16 an average of 4.3 days training per employee was provided by the SSRO.

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 KPI target of "greater than 50 per cent engagement with staff". The SSRO's overall mean engagement score was 69 per cent, compared to the civil service score of 58 per cent in 2015, this exceeds our KPI target.

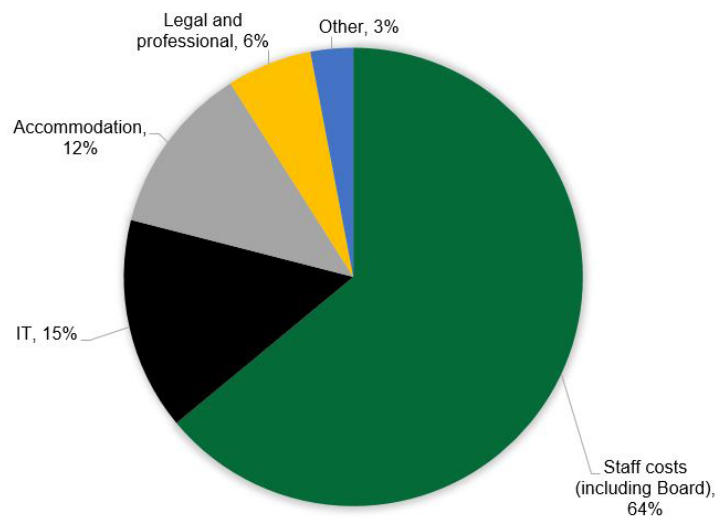
The KPIs in place to measure performance against this objective in 2015/16 are set out in the table below. These KPIs are taken from the SSRO's Corporate Plan 2015-2018 and are measured against a three-year timeline, as required in the SSRO's Framework Document with the MOD. An indication is given of performance towards the KPI in 2015/16:

What is being measured	Target (2015-2018)	Performance
Voluntary resignation of staff is less than 10 per cent.	10 per cent	Delivered in full
Average number of days spend per annum per person on formal training.	3 days per annum per person	Delivered in full
The level of employee engagement with the organisation.	At least 50 per cent positive feedback on employee surveys	Delivered in full

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

The SSRO's first statutory aim is to ensure that good value for money is obtained for the taxpayer in government expenditure on QDCs. 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 industry. It is important that we are run efficiently and that all expenditure is justified and results in public benefit.

### SSRO expenditure: 2015/16



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.

As at 31 March 2016, the year to date average rate for paying undisputed invoices remains above target (80 per cent) at 96 per cent.

There have been six completed reports received from internal audit during 2015/16, of which all received substantial or moderate assurance.

The KPIs in place to measure performance against this objective in 2015/16 are set out in the table below. These KPIs are taken from the SSRO's Corporate Plan 2015-2018 and are measured against a three-year timeline, as required in the SSRO's Framework Document with the MOD. An indication is given of performance towards the KPI in 2015/16:

What is being measured	Target (2015-2018)	Performance
Undisputed invoices paid within 5 days.	80 per cent	Delivered in full
Required transparency information published within one month of the month end.	100 per cent	Delivered in full
Aim for substantial or moderate assurance on all finance internal audit reviews.	100 per cent	Delivered in full

## Financial and other performance during the year

This section summarises the financial performance of the SSRO during the 2015/16 year. This information provides an explanation of the grant funding received and how it was spent. When read in conjunction with the SSRO's Corporate Plan, the section sets out how financial performance will develop over the next three years. In providing this information in the publically available Annual Report and Accounts, we aim to meet our goal of being transparent.

During the period 2015/16 the SSRO agreed Grant in Aid funding of £4,707,000 which, together with £241,000 of unutilised Grant In Aid funding brought forward from 2014/15, gave a total expenditure capacity of £4,948,000. Within the first full year of operation of the SSRO, the spending pattern has become increasingly stable and regular. Over the year there has been a shift from reliance on short term temporary support to permanent staff and contractual arrangements with suppliers of goods or services procured through government framework contracts. The SSRO continues to seek value for money in its day to day operation and back office functions to support the delivery of its statutory obligations. The continued use of an outsourced model for many support services coupled with the access to appropriate framework contracts for additional support allows the SSRO to achieve a measure of resilience that is always a challenge for a small organisation, as well as ensuring access to necessary expert advice when it is required.

The outturn expenditure (including capital expenditure) of £4,905,000 represents utilisation of 99 per cent of the total available Grant In Aid funding provided by the MOD. The majority of the expenditure incurred is on staff and related costs. Other significant areas of expenditure include accommodation and IT costs, coupled with a limited number of residual one-off costs required to establish the organisation. This included planned IT development and infrastructure costs aimed at ensuring we have a secure physical and virtual environment in which to conduct business.

Separate funding arrangements exist for expenditure on referrals reflecting the uncertain nature of when these may arise and the costs that may be incurred. The MOD has agreed to provide additional Grant In Aid for all referral related expenditure as it is required based on the submission of details of actual costs incurred. During the 2015/16 year, expenditure of £150,000 (2014/15: nil) was incurred and reimbursed.

The MOD paid a small number of residual costs relating to arrangements associated with the establishment of the SSRO. Total costs incurred by the MOD but not recharged to the SSRO in relation to 2015/16 was £46,000 (2014/15 £536,000).

Looking ahead, the financial priorities over the next year will be the continued delivery of value for money in the provision of our statutory functions. This work will include procurement of the next phase of the Defence Contracts Analysis and Reporting System and the letting of framework contracts for other areas of expert support.

## Creditor payments, target and performance

The SSRO's 2015/16 target was to pay suppliers promptly in line with our standard terms and conditions, which are to pay all valid invoices within 30 days of receipt of invoice. The 30 days target was met with 100 per cent of invoices paid within the 30 day target (94 per cent 2014/15).

HM Treasury guidance is that government departments and other public sector bodies should aim to pay 80 per cent of undisputed invoices within 5 days. The target was met with 96 per cent of undisputed invoices paid within the 5 day target (77 per cent 2014/15).

## Staffing

To manage the transition to having more permanent employees in post there was a necessary reliance on short term secondments and other temporary staffing arrangements. These costs, along with the costs of recruitment were all contained within the overall funding envelope. The success of our recruitment campaigns in attracting and securing the skilled and professional staff employed at the SSRO are testament to the progress made in establishing awareness of the SSRO as a regulator and employer of choice for high calibre staff.

As the number of staff has increased over the 2015/16 year there has been an initial investment in staff training and development to help embed and sustain the culture and ethos of the organisation based on our organisational values of independence, transparency and professionalism. Our Corporate Plan includes a commitment to at least 3 days of training per staff member during each year. This target was met with 92 days of training having been provided during the period (no relevant comparable for 2014/15). This focus will continue into 2016/17 with a continued emphasis on professional development, skill enhancement and sector knowledge.

## Pension liabilities

SSRO employees are eligible to join the Principal Civil Service Pension Scheme (PCSPS). Further information on pension liabilities is discussed in the Remuneration Report.

## Personal data related incidents

There were no personal data incidents reported to the Information Commissioner's Office (ICO) during the 2015/16 year.

## Explanation of adoption of going concern basis

In preparing these accounts, the SSRO has adopted the Government Financial Reporting Manual issued by HM Treasury, and in particular has:

- observed the relevant accounting and disclosure requirements, and applied suitable accounting policies on a consistent basis;
- made judgements and estimates on a reasonable basis;
- stated whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed and disclosed and explained any material departures in the accounts; and
- prepared the accounts on a going concern basis, as set out in Note 1.3 of the SSRO's financial statements.

The SSRO Board is content that the going concern basis still applies as both expenditure and the cash flow are carefully monitored to reduce these risks. The SSRO has ongoing funding from the MOD.

Marcine Waterman

Accounting Officer

23 June 2016





# Accountability report

# Corporate governance report

## Directors' report

### Our Board members during the year of review

The commentary relating to the Board reflects their activities during the year ending 31 March 2016.

#### Non-executive members

##### Clive Tucker – Interim Chair



Clive was appointed as a non-executive member of the SSRO in September 2014, and interim Chair in February 2016. He is the Chair of the SSRO's Referrals Committee and a member of the Regulatory Review Committee. Clive is currently a non-executive national committee member and Audit Committee Chair at the Forestry Commission England, and a steering board member of the UK Space Agency and Chair of its Audit Committee. He is also a non-executive member of the UK and Ireland Regulatory Board of the Royal Institution of Chartered Surveyors.

Previous roles include solicitor and partner at Ashurst LLP, where he advised on major procurement projects and other commercial transactions.

##### Jeremy Newman – Chair until February 2016



Jeremy was appointed Chair of the SSRO in July 2014. He is a chartered accountant and is currently a non-executive Board member of the Crown Prosecution Service and a non-executive Board member, and Deputy Chair, of the Government Legal Department. He is a member of the Council of the Open University, an Honorary Visiting Professor at Cass Business School, a trustee of the Social Investment Business Foundation and a trustee of a number of private charitable trusts. He was Chairman of the Audit Commission, having been appointed to oversee its closure, and was previously Global Chief Executive of BDO, one of the world's leading professional services firms. Jeremy resigned from his post with the SSRO on 8 February 2016.



### Jane Attwood

Jane was appointed as a non-executive member in September 2014. She is the Chair of the SSRO's Regulatory Review Committee and a member of the Audit Committee. Jane is currently Head of Intelligence at the Financial Conduct Authority. She is a member of the Advisory Council at the Royal United Services Institute. Her previous roles include: Commercial and Development Director at JTiP – part of PGI group; Group Fraud Prevention Director at Lloyd's Banking Group; Deputy Director, Prevention and Alerts at SOCA; Vice President, Market Development at BAE Systems; and an earlier career in HM Diplomatic Service.



### Marta Phillips OBE

Marta was appointed as a non-executive member in September 2014. She is the Chair of the SSRO's Audit Committee and a member of the Referrals Committee. Marta holds a number of non-executive appointments including Governor, Audit Committee Chair and Remuneration Committee member of Ravensbourne University Sector College in Central London, Audit Committee member of the Crown Prosecution Service and Finance Committee member of Heriot Watt University. She is also a Council member of Association of Accounting Technicians.

Marta has served in various board positions, including Council member of the Institute of Chartered Accountants of Scotland, Chair at Veridian HA; and Audit Committee Chair and Executive Chair at Ujima Housing Association. She was appointed OBE in 2006 for services to social housing. Previous roles include: Chief Executive of the Pensions Advisory Service; Director of Compliance at the National Lottery Commission; and Head of Finance, European Social Fund at the Department for Education and Skills. Marta had earlier roles at HSBC, The Stock Exchange and Ernst and Young.

## Our executive members



### Marcine Waterman – Chief Executive

Marcine became the SSRO's full-time Chief Executive in April 2015, having been appointed part-time to the role in September 2014. While at the SSRO, Marcine has overseen the establishment of the organisation and the discharge of its statutory functions.

Marcine also led the Audit Commission as Controller of Audit, making sure it efficiently and effectively applied its statutory audit regime for local public bodies, and monitored and managed the performance of the private audit firms providing audit services. Marcine worked at the Audit Commission from 1993, and was 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 engaged in, and oversaw the successful closure of the organisation in March 2015.

Prior to that, Marcine was a Consultant, at the Public Sector & Government Practice of Ernst and Young (USA), and a Confidential and Legislative Assistant at the White House, US Presidential Office.



### Ian McPherson

Ian was appointed as Director of Compliance and Investigations in March 2016, having been seconded to the SSRO from accounting firm BDO as Defence Advisor in October 2014. He is responsible for the provision of statutory guidance, conducting investigations in response to referrals, overseeing the reporting and compliance of industry and the MOD with the Regulations, and developing the investigative function of the SSRO.

Ian began his career in the British Army as a logistician, serving across the globe including seven operational tours of duty. He has commanded at both Squadron and Regimental level and undertook staff appointments in Brigade, Divisional, Corps HQ's and at the MOD as well as operational tours with both the US and French Army. Ian is a guest lecturer in smart procurement at the Defence Academy and was awarded the BEM in 1981 and made an OBE in 1999. Previous roles include Vickers Defence Systems working on the Challenger II Main Battle Tank programme; Consultant for the Helm Corporation leading the work on the division of Sudan under the auspices of the World Bank and UN; Commercial Director at Tribal; and Director in the Public Sector Advisory team at BDO.



### Matthew Rees

Matthew was appointed Director of Analysis and Reporting in March 2016. He is responsible for the methodology and calculation of the baseline profit rate and capital servicing rates, the production of the profit rate assessment guidance, analysis of evidence and data, VFM studies, the Defined Pricing Structure and the management of Defence Contract Analysis and Reporting System.

Matthew began his career at KPMG audit, qualified as a Chartered Accountant and then specialised in business valuations. He moved to investment banking, working for the technology, media and telecom teams of Merrill Lynch, Deutsche Bank and JPMorgan. In his public sector career Matthew advised the UK Competition Commission in relation to merger and market investigations, economic regulation cases, and divestiture remedies. He joined the National Audit Office in 2014 and established a new corporate finance team focusing on value for money reviews of privatisations, asset sales and infrastructure financing. Previous roles include Director of Corporate Finance, National Audit Office; Financial and Business Adviser, Competition Commission (UK); Executive Director, Investment Banking, JPMorgan Chase; Vice President, Investment Banking, Deutsche Bank; Vice President, Technology Investment Banking, Merrill Lynch; and Manager, Corporate Finance & Assistant Manager, Public Sector Audit, Infrastructure and Government, KPMG. In March 2016 Matthew was appointed as an independent non-executive director of Gemserv Limited. Gemserv provides consulting and advisory services to competitive utility and environmental markets and their participants.



### Neil Swift

Neil was appointed as the Director of Corporate Resources in April 2015 and is responsible for the provision of operational support services including human resources, finance, legal, procurement, IT and information management.

Neil started his career as a trainee engineer with British Aerospace before changing direction to train as an accountant with KPMG. After a move to the public sector Neil worked in several frontline operational finance roles across the public sector including as Deputy Director of Finance at a large NHS Trust in London. Neil joined the Audit Commission in 2003, initially as a Senior Manager and Health Policy Lead as which he worked on a range of national studies and publications before becoming Head of Technical Support for the Commission's Audit Practice in 2007. He was appointed Associate Controller Corporate Resources in 2009 and was responsible for the delivery of all support services during the transition to and eventual closure of the Commission.

### Philip Davis

Philip joined the SSRO as Director of Regulation in July 2015. He left the SSRO on 14 December 2015. This post has not been replaced.

## Board appointment dates

Name	Start date	End date
<b>Non-Executive Directors</b>		
Clive Tucker	29/09/14	28/09/17
Jeremy Newman	21/07/14	08/02/16
Jane Attwood	29/09/14	28/09/17
Marta Phillips	29/09/14	28/09/17
<b>Executive Directors</b>		
Marcine Waterman <sup>[1]</sup> Chief Executive	01/04/15	
Ian McPherson Director of Compliance and Investigations	01/03/16	
Matthew Rees Director of Analysis and Reporting	14/03/16	
Neil Swift Director of Corporate Resources	20/04/15	
Philip Davis Director of Regulation	15/07/15	14/12/15

[1] Marcine Waterman was appointed as Interim Chief Executive on a fixed term contract on 1 April 2015, and subsequently appointed as Chief Executive on 1 October 2015.

## Board personnel declared interests

The following disclosures relate to the activities of the Chair and members during the currency of their appointments in the year. The disclosures arise where a Board member has been in a position of influence resulting from election to, receiving remuneration from, or appointment to any organisation:

- that is a central government body; and
- that falls under the SSRO's statutory functions or is a provider or receiver of significant services to or from the SSRO.

<b>Non-Executive Directors</b>
<p>Clive Tucker - Interim Chair</p> <ul style="list-style-type: none"> <li>• Non-executive steering board member and Audit Committee Chair at the UK Space Agency</li> <li>• Non-executive member, Forestry Commission England</li> </ul>
<p>Jane Attwood</p> <ul style="list-style-type: none"> <li>• Head of Intelligence, Financial Conduct Authority</li> <li>• Member of the Advisory Council at the Royal United Services Institute</li> </ul>
<p>Marta Phillips</p> <ul style="list-style-type: none"> <li>• Member of the Council at the Institute of Chartered Accountants of Scotland</li> <li>• Independent Member of the Audit and Risk Committee at the Association of Accounting Technicians</li> <li>• Audit Committee member of the Crown Prosecution Service</li> </ul>
<p>Jeremy Newman, Chair (until February 2016)</p> <ul style="list-style-type: none"> <li>• Crown Prosecution Service - non executive Board member. Chair of Audit and Risk Committee</li> <li>• Treasury Solicitor's Department · non-executive Board member. Chair of Audit and Risk Committee</li> </ul>
<b>Executive Directors</b>
<p>Marcine Waterman</p> <ul style="list-style-type: none"> <li>• Member of the Finance Futures Panel, Welsh government</li> </ul>
<p>Ian McPherson</p> <ul style="list-style-type: none"> <li>• None declared</li> </ul>
<p>Matthew Rees</p> <ul style="list-style-type: none"> <li>• Independent non-executive director of Gemserv Limited</li> </ul>
<p>Neil Swift</p> <ul style="list-style-type: none"> <li>• None declared</li> </ul>
<p>Philip Davis</p> <ul style="list-style-type: none"> <li>• None declared</li> </ul>



## Statement of responsibilities

### Board members' responsibilities

The SSRO's Corporate Governance Framework sets out that the Board is responsible for:

- the discharge of the SSRO's functions;
- providing strategic leadership, direction, support and guidance, and overseeing the development and implementation of strategies, plans and priorities of the SSRO;
- overseeing the development and review of the SSRO's aims and corporate objectives;
- allocating within the SSRO the budget that has been agreed by the Department, ensuring that the SSRO uses resources efficiently and achieves value for money;
- monitoring the SSRO's performance and work, and ensuring that it receives and reviews regular financial and performance information concerning the management of the SSRO;
- observing high standards of corporate governance at all times, including by using the independent Audit Committee to help the Board to address key financial and other risks;
- putting in place effective arrangements to provide assurance on risk management, governance and internal control;
- ensuring that the SSRO operates within its statutory remit and the limits of its statutory authority and any delegated authority agreed with the Department, and in accordance with any other conditions relating to the use of public funds;
- ensuring that the Department is kept informed of any changes that are likely to impact on the strategic direction of the SSRO; the attainability of its targets; and any concerns about the activities of the SSRO, and determine the steps needed to deal with such changes; and
- ensuring that, in reaching decisions, the Board takes into account legislation and guidance issued by the Department.

The Board regulates its own proceedings, and has approved Standing Orders for that purpose.

On behalf of the Board, the Audit Committee reviews and challenges the SSRO's internal control systems; assessment and management of risk; financial, accounting and tax policies, practices and processes; and arrangements for controlling and reporting expenditure.

The Board may choose to delegate to the Chief Executive specific matters that would otherwise be reserved to the Board. The matters that are delegated to the Chief Executive are set out in the [SSRO's Corporate Governance Framework](#).

## Statement of Accounting Officer's responsibilities

In accordance with paragraph 12 of Schedule 4 of the Defence Reform Act, the SSRO must keep proper accounts and proper records in relation to them, and prepare a statement of accounts in respect of each financial year. The Secretary of State may give directions to the SSRO about the content and form of the statement, and the methods and principles to be applied in preparing it. Paragraph 13 of Schedule 4 of the Defence Reform Act states that the SSRO must prepare a report on its activities during each financial year. The report must include the statement of accounts in respect of that year.

The accounts are prepared on an accruals basis and must show a true and fair view of the SSRO's state of affairs at the year end, including its income and expenditure, its financial position, changes in taxpayers' equity, and cash flows for the accounting year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- observe the accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts; and
- unless inappropriate, prepare the accounts on a going concern basis.

The Permanent Under Secretary of the MOD has designated the SSRO's Chief Executive as the Accounting Officer for the SSRO. HM Treasury's Managing Public Money sets out the responsibilities of the Accounting Officer, which include ensuring regularity and propriety in the use of public money, proper governance structures, effective decision making and sound financial management.

## Our auditor's details

The financial statements are audited by the Comptroller and Auditor General. He has not provided any other service to the SSRO during the year. The audit fee is disclosed in note 4.

The Chief Executive confirms that:

- there is no relevant information of which the auditors are unaware;
- she has taken all the steps she ought to ensure that she is aware of all relevant audit information; and
- she has taken all the steps she ought to ensure that the Comptroller and Auditor General is aware of all relevant audit information.

## Governance statement

### Scope of responsibility

As Accounting Officer, I am responsible for upholding sound internal controls that support the SSRO's policies and objectives. The internal controls safeguard the public funds and assets for which I am personally responsible under Managing Public Money.

### Background to events in 2015/16

During 2015/16, the SSRO has:

- discharged its statutory functions by recommending a baseline profit rate and capital servicing rates to the Secretary of State before 31 January, publishing guidance on the contract profit rate, and issuing a final opinion on a matter referred to it;
- published its first annual Compliance Report, considering adherence by industry and the MOD to the Act and Regulations;
- published a VFM studies programme, and commenced work on the first study;
- established all necessary governance policies and procedures, to enable the Board to make robust, evidence based decisions in line with best practice;
- published its Corporate Plan 2015-2018 and delivered, or been on course to deliver across the period of the Corporate Plan, all key performance indicators;
- become a 'prescribed person' under the Public Interest Disclosure Act (1998), able to consider 'protected disclosures' from external whistleblowers on malpractice or wrongdoing in the procurement of single source defence contracts; and
- engaged with its key stakeholders in government and the defence industry (both in the UK and internationally) in order to share, and learn from, good practice.

The organisation completed the recruitment of 24 staff during 2015/16 and now has 31 permanent high calibre staff, with the necessary skills and expertise across a range of specialisms to deliver our regulatory and corporate functions. I undertook the role of Chief Executive and Accounting Officer of the SSRO throughout 2015/16 and was appointed permanently to the role in October 2015. At year end, the organisation has an interim Chair, following the resignation of the first permanent Chair in February 2016.

The SSRO Board operated effectively and independently during the year using three sub-Committees to further the Board's strategic and oversight roles. The Committees are the: Audit Committee, Referrals Committee and Regulatory Review Committee. The SSRO also has an Executive Committee, reporting to me.

The foreword and strategic review sections of this report describe events in 2015/16 in more detail.

## Governance framework

### The purpose of the governance statement

The governance statement, for which I as Accounting Officer take personal responsibility, is intended to provide a clear understanding of the SSRO's business and its control structure. It sets out the stewardship arrangements for the SSRO and supplements the accounts, together providing a record of how the SSRO has performed in its first full year of existence.

This statement also explains how the SSRO has complied with good governance principles and reviews the effectiveness of these arrangements.

### SSRO's structure and governance framework

The SSRO's governance framework and arrangements for internal control are designed to manage risk to an optimum level, rather than eliminate all risk of failure; to fulfil our statutory obligations, and the SSRO's own policies, aims and objectives. The governance documents and others referred to in this section are all available on the SSRO's website, along with the agendas and minutes of all Board meetings.

As an executive Non-Departmental Public Body, the SSRO operates under a Framework Document agreed between the SSRO and its sponsor, the MOD. As required by the Framework Document, the Board completed its first annual review of the Corporate Governance Framework document in December 2015, drawing on the lessons learned by the SSRO in its first year of operation, and by reference to external sources such as the legislative framework and good practice such as the Treasury's Managing Public Money and Corporate governance in central government departments: Code of good practice.

The SSRO's Corporate Governance Framework is aligned with and supports the strategic aims of the SSRO as set out in the Framework Document. The document clearly codifies the Board's commitment to strong corporate governance being central to the effective direction and control of the organisation, and delivery of its statutory role and strategic objectives. The document sets out the organisation's arrangements and processes for governance including the roles of the Chair, Board, Committees and Chief Executive; the powers exercised by the Board or delegated to the Chief Executive; and provides standing orders that establish the procedural framework within which the SSRO discharges its business.

The SSRO Board has approved a set of policies and procedures to ensure the robust governance of the SSRO. These include:

- A Code of Conduct for Board members and external panel members, providing for a public register of interests for Board members and external panel members. The Code of Conduct was reviewed and updated this year alongside the Corporate Governance Framework.
- A Complaints Policy, to ensure all staff and external stakeholders are aware of how they can raise a complaint about the SSRO.
- A Gifts and Hospitality policy.

- A Whistleblowing Policy, which sets out the SSRO's process for handling concerns raised by internal staff, and in addition external employees following the SSRO becoming a 'prescribed person' under the Public Interest Disclosure Act (PIDA) 1998 on 1 February 2016.

We also have established robust risk control processes which are considered regularly by the Executive Committee, Audit Committee and Board. Further information on our risk mitigation is set out below.

At no time has any part of the SSRO's system of internal control failed or been suspended.

The SSRO is managed and overseen by its Board. The SSRO's first permanent Chair resigned in February 2016. As a result, Clive Tucker, one of the SSRO's existing non-executive members, was appointed as interim Chair, pending the recruitment of a permanent Chair. The SSRO Board is therefore comprised of three non-executive members (including the Chair), the Chief Executive and Director of Corporate Resources. At the end of the reporting period, the SSRO was in the process of recruiting an additional two non-executive members (who will be appointed by the Secretary of State for Defence) to the Board. It is intended that the SSRO's Director of Analysis and Reporting and Director of Compliance and Investigations (appointed in March 2016) will become full executive Board members following the appointment of the additional non-executive members.

## The Board

The Corporate Governance Framework states that the Board is responsible for the following:

- the discharge of the SSRO's functions;
- providing strategic leadership, direction, support and guidance, and overseeing the development and implementation of strategies, plans and priorities for the SSRO;
- overseeing the development and review of the SSRO's aims and corporate objectives;
- allocating within the SSRO the budget that has been agreed by the Department, ensuring that the SSRO uses resources efficiently and achieves value for money;
- monitoring the SSRO's performance and work, and ensuring that it receives and reviews regular financial and performance information concerning the management of the SSRO; is informed in a timely manner about any concerns about the activities of the SSRO; and provides positive assurance to the MOD that appropriate action has been taken on such concerns;
- observing high standards of corporate governance at all times, including by using the independent Audit Committee to help the Board to address key financial and other risks;
- putting in place effective arrangements to provide assurance on risk management, governance and internal control;

- ensuring that the SSRO operates within its statutory remit and the limits of its statutory authority and any delegated authority agreed with the Department, and in accordance with any other conditions relating to the use of public funds;
- satisfying itself that plans are in place for orderly succession for appointments to the Board so as to maintain an appropriate balance of skills and expertise and ensure progressive refreshing of the Board;
- ensuring that the Department is kept informed of any changes that are likely to impact on the strategic direction of the SSRO; the attainability of its targets; any concerns about the activities of the SSRO; and determining the steps needed to deal with such changes; and
- ensuring that, in reaching decisions, the Board takes into account legislation and guidance issued by the Department.

The Corporate Governance Framework also describes individual responsibilities for the Chair and for other Board members, distinguishing between non-executive members and executive members where necessary. The document sets out the Board's authority to appoint committees and determine their procedure, and the Board's role concerning the corporate and business plans, internal audit, the Annual Report and Accounts, external audit and value for money examinations.

During 2015/16 the Board carried out several actions, including considering and approving:

- all decisions relating to the SSRO's statutory functions;
- the Annual Report and Accounts 2014/15;
- the Corporate Plan 2015/16;
- the annual review of the Board's effectiveness;
- the annual review of the Corporate Governance Framework and Code of Conduct for Board members and external panel members (both of which are published on the SSRO website);
- a legal support framework to allow the SSRO to draw on necessary expert support as required in order to improve resilience whilst ensuring value for money;
- regular financial and performance updates on how the organisation is delivering against its budget and key performance objectives;
- the structure of the Executive Committee;
- the SSRO's Whistleblowing and Complaints policies;
- the annual budget for 2015/16; and
- the minutes of all Board and Committee meetings.

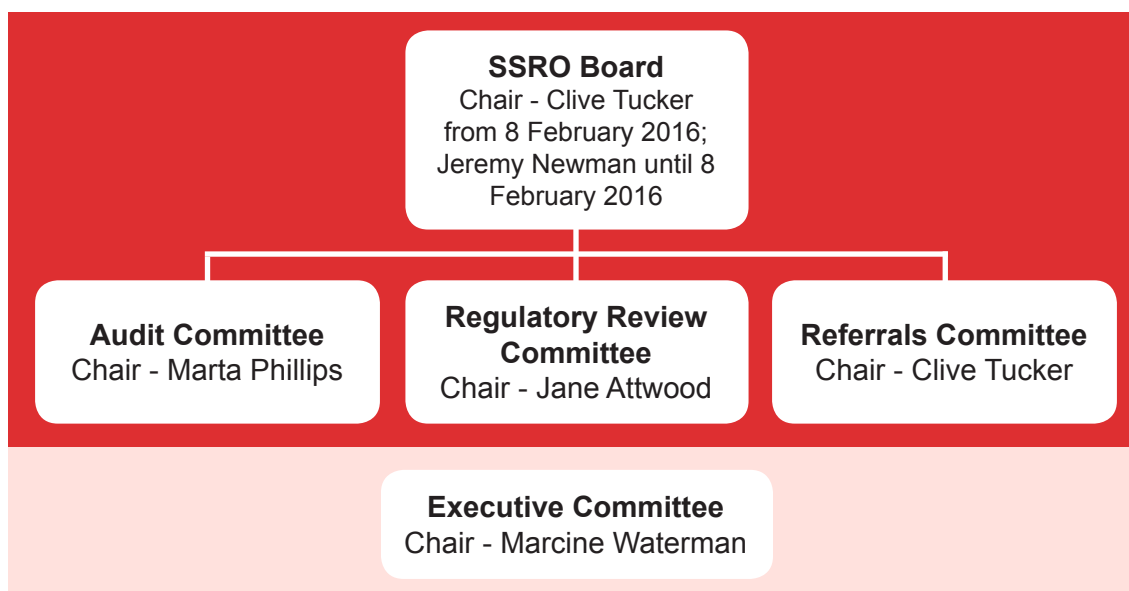
The Board also attend two meetings of the SSRO's Senior Stakeholder Forum, which is an opportunity for the SSRO to engage with senior representatives from the main prime defence contractors and the MOD.

In 2015/16, the SSRO carried out its first annual review of the Board's effectiveness as required by the SSRO's Corporate Governance Framework. The review was led by the SSRO Chair, Jeremy Newman, who held individual meetings with each executive and non-executive member of the Board to assess the operation of the Board as a whole, including any committees and advisory groups, and the performance of non-executive members. The review also considered the recommendations in the Audit Committee's report to the Board on the Committee's own effectiveness, as well as provisions within the Corporate Governance Framework, Framework Document, and the HMT's Corporate governance in central government departments: code of conduct, 2011 which sets out the principles and provisions of an effective Board.

The Board discussed the annual review at its December 2015 meeting, and accepted all the report's recommendations. The report found the SSRO Board to be operating effectively and independently. There was agreement that discussions are open, appropriate and relevant, and that all papers are well prepared and help ensure effective meetings. The review found that there are robust policies and procedures in place to ensure the effective governance, risk management, independence and decision making of the Board. The Board is complemented by several effective Committees which members participate in fully, and these have already demonstrated value in furthering the Board's strategic and oversight roles.

Independent input will be sought for the annual review at least once every three years in line with HMT's Code of Conduct.

In 2015/16 the Board and its sub-committee structure was as follows:



Following the resignation of the previous Chair, Jeremy Newman, in February 2016, there are currently three non-executive members of the Board, including the interim Chair Clive Tucker. At the end of the reporting year, the SSRO was in the process of appointing an additional two non-executive members. The MOD will seek to appoint a permanent Chair in the next financial year. Following these appointments, the Chair is expected to review the composition of all Committees.

In 2015/16, Board members attended the following meetings of the Board and its sub-committees (of the total meetings which could have been attended):

	Board		Audit Committee		Regulatory Review Committee		Referrals Committee	
	Number of meetings attended	Number of eligible meetings	Number of meetings attended	Number of eligible meetings	Number of meetings attended	Number of eligible meetings	Number of meetings attended	Number of eligible meetings
Jeremy Newman	6	6	n/a	n/a	n/a	n/a	7	7
Clive Tucker	7	7	n/a	n/a	3	3	12	12
Marcine Waterman	7	7	3	4	3	3	12	12
Jane Attwood	7	7	4	4	3	3	n/a	n/a
Marta Philips	6	7	4	4	n/a	n/a	5	5
Neil Swift	7	7	3	3	n/a	n/a	n/a	n/a
Philip Davies	3	3	n/a	n/a	n/a	n/a	2	2
Ian McPherson*	1	1	n/a	n/a	n/a	n/a	n/a	n/a
Matthew Rees*	0	1	n/a	n/a	n/a	n/a	n/a	n/a

\* Ian McPherson and Matthew Rees did not vote at these meetings, in concession to the requirement in the Defence Reform Act for a majority of non-executive members.

### The SSRO Audit Committee

On behalf of the Board, the Audit Committee provides scrutiny, oversight and assurance of risk management, internal control and governance procedures to myself, as Chief Executive and Accounting Officer, and to the Board. The Audit Committee last reviewed its terms of reference to ensure they were fit for purpose in December 2015 and will continue to do so on an annual basis.

During 2015/16 the Audit Committee was chaired by Marta Phillips, with Jane Attwood as the other non-executive member. The Audit Committee has met four times during 2015/16. Throughout this period the Audit Committee carried out a range of actions, including:

- Overseeing the SSRO's assessment and management of risk, through giving regular consideration to the SSRO's Corporate Risk Register, and completing an annual review of the SSRO's Risk Management Policy. Further detail on our risk monitoring and mitigation is discussed below.
- Completing an annual review of the SSRO's prime and detailed policies, as required by the Corporate Governance Framework.



- Giving consideration to regular performance and financial management information through the review of the regular Director of Corporate Resources report.
- Overseeing the arrangements for controlling and reporting SSRO expenditure.
- Overseeing the SSRO's purchase of insurance cover.
- Overseeing the production of the Annual Report and Accounts, including considering a set of interim Accounts for 2015/16, and recommending them to the Board for approval.
- Being responsible for reviewing the SSRO's internal control systems and arrangements for internal audit; in particular appointing the internal auditors; approving their work plan; and reviewing their reports, and the responses of management; following up all agreed recommendations to ensure that management has taken them forward.
- Being responsible for overseeing the SSRO's external audit; considering the National Audit Office's work plan for the 2015/16 financial statement audit; reviewing and giving consideration to their Audit Completion report and management letter; and the responses of management; following up all agreed recommendations to ensure that management has taken them forward.
- Completing an annual report on the Audit Committee's own effectiveness and the overall governance of the SSRO, which was considered as part of the annual review of the Board's effectiveness.

### The SSRO Referrals Committee

The Act requires that several of the SSRO's functions, listed in Schedule 4, Section 10(3), be exercised by a committee. In March 2015, the SSRO established the Referrals Committee to carry out these functions. The Act further states that this Committee must consist of three persons and at least one of the members of such a committee must be a person who is not a member or employee of the SSRO.

During 2015/16 the Referrals Committee was chaired by Clive Tucker, with Jeremy Newman as the second non-executive member until his resignation in February 2016, when Marta Phillips was appointed as the second non-executive member.

In line with the Act, the SSRO has recruited three external referral panel members who are not an employee or member of the SSRO. Following receipt of a referral and consideration of any potential conflict of interests in relation to the specific issue, one of these independent members is appointed to the Committee for the duration of the referral in question. During 2015/16, Terence Jagger and Christie Fraser were appointed to the Committee for specific referrals.

The Committee met 12 times during 2015/16 to consider one request for an opinion, and one request for a determination under the Act.

The Committee is responsible for considering all matters related to the functions listed below, as and when they arise:

- Section 16(2)(b) - price adjustments;
- Section 18(3) – determinations about the contract profit rate;
- Section 20(5) or (6) – determinations about allowable costs;
- Section 21(3)(b) – determinations about final price adjustments;
- Section 23(6) or (7) – determinations about the use of records;
- Section 27(3) – investigating confidentiality obligations;
- Section 29(5) - determining whether a contract is a qualifying sub contract;
- Section 30(4)(b) – overruling a notice that Part 2 of the Act and the Single Source Contract Regulations 2014 should cease to apply to a sub-contract;
- Section 32(8) – determinations on a penalty; and
- Section 35(1), (3), (4) and (7) - opinions and determinations.

The Referrals Committee last reviewed its term of reference to ensure they were fit for purpose in September 2015. It will continue to do so on an annual basis.

### The SSRO Regulatory Review Committee

On behalf of the Board, the Regulatory Review Committee provides oversight and scrutiny to enable the SSRO to carry out its statutory functions. The Committee oversees the SSRO's review of the Act and Regulations, provides oversight on statutory guidance and acts as a project board for the SSRO's secure reporting database Defence Contracts Analysis and Reporting System (DefCARS). The SSRO is required by the Act to keep Part 2 of the Act and the associated Regulations under review and to recommend to the Secretary of State such changes as it considers appropriate. The Secretary of State must then have regard to the findings and recommendations of the SSRO when deciding whether to alter the existing statutory framework.

During 2015/16 the Regulatory Review Committee was chaired by Jane Attwood, with Clive Tucker as the other non-executive member. I am also a member of the Committee. The Committee has met four times during 2015/16, during which it carried out several actions, which include:

- overseeing the review of the Act and Regulations, and making recommendations to the Board, which has overall responsibility for keeping the legislation under review;
- providing early scrutiny and making recommendations to the Board on the SSRO's substantial review of the baseline profit rate methodology;
- providing review and oversight of statutory guidance and reporting requirements, such as the Single Source Cost Standards and the establishment of the Defined Pricing Structure; and

- acting as a project board for the implementation of the DefCARS database.

The Regulatory Review Committee last reviewed its term of reference to ensure they were fit for purpose in December 2015. It will continue to do so on an annual basis.

### The SSRO Executive Committee

The SSRO Executive Committee is responsible for the day-to-day management of the SSRO, and assists in the performance of my duties.

The Executive Committee was established in May 2015. The Committee's Executive Scheme of Delegation was prepared in accordance with the SSRO's Framework Document and Corporate Governance Framework, which requires the Chief Executive to prepare and maintain a comprehensive Scheme of Delegation for the organisation. This Scheme must be read in conjunction with Part 4 of the Corporate Governance Framework, which reserves certain matters to the Board.

During 2015/16, the Committee met monthly. I chair the Executive Committee, whose other members are the Director of Analysis and Reporting, the Director of Compliance and Investigations, and the Director of Corporate Resources.

### Risks and internal controls

Internal controls aim to reduce risk, not remove it. The SSRO gains assurance that risks are kept under control by ensuring controls are robust in design and work as intended.

The principal features of the system of internal control in place throughout the year are:

- an organisational structure that supports clear lines of communication, monitoring, reporting and accountability;
- plans, objectives and priorities, which take account of risk and are approved by the Board; and
- a corporate risk policy approved annually by the Audit Committee.

The SSRO's risk management policy is reviewed annually and provides for a corporate risk register to be maintained and reviewed regularly by the Executive Committee and Audit Committee.

## Risks and risk management

Risk management is an integral part of the SSRO's internal control framework, for which I am responsible. The SSRO's Corporate Governance Framework states that it is the Board's responsibility to put in place "effective arrangements to provide assurance on risk management, governance and internal control" and that "The Audit Committee will have responsibility for the independent review of the risk management system", while reporting to the Board on the SSRO's risk management arrangements. The Chief Executive's responsibility is to put in place appropriate arrangements for risk management, which are overseen by the Board and Audit Committee.

The SSRO's risk management arrangements are proportionate to the scale of the organisation; there is a single corporate risk register, containing around 10 risks at any point. The most significant risks that are included on the register relate to the SSRO's independence, and the possibility of a higher number of referrals than expected, resulting in insufficient resources. Executive Committee members manage local risks and only include risks in the corporate risk register if they are significant. The Audit Committee considers the risk register at each meeting, and risks are escalated by the Executive Committee through the regular Corporate Performance Report.

The Director of Corporate Resources is Executive Committee member responsible for the SSRO's overall risk management arrangements and for reporting on risk to Executive Committee meetings. Members of the Executive Committee manage the individual risks to their functions and projects.

The Executive Committee considers its tolerance for each risk, as follows:

- High – the SSRO would not suffer an adverse impact if the risk came about, so will not assign significant resources to mitigating the risk;
- Medium – the SSRO would be affected if the risk came about and will take proportionate action to avoid the risk; or
- Low – the SSRO would be fundamentally affected if the risk came about and will seek to avoid the risk if possible.

The SSRO's tolerance of risk is usually low - this is especially true of stakeholder and reputational risks. The Executive Committee considers for each risk the reputational implications for the SSRO if it was realised. Risk tolerance is also considered by the Audit Committee at each meeting, and reported to the SSRO Board by the Chair of the Committee.

Our internal auditor, the Government Internal Audit Agency (GIAA), included in its audit plan that it would review the SSRO's risk management framework. The SSRO's Audit Committee approved this plan, and internal audit presented an assurance report to the Audit Committee on risk management. Our internal auditors have no operational responsibility for risk management.

## Financial management

The SSRO has effective controls in place to forecast, manage and report on its expenditure.

The SSRO Board considers the SSRO's performance and progress against its Corporate Plan and budget. A review of management accounts is completed each month and financial performance reported to the Board at each meeting. The SSRO prepares and analyses key financial information by regularly liaising with key areas of the organisation to ensure that the SSRO's Executive Committee is able to make well informed decisions.

The SSRO continues to deliver value for money through having robust internal financial controls. The SSRO approves all spending before supply, and it publishes details of individual spending over £25,000 on its website.

The SSRO receives Grant In Aid from the MOD. The use of this grant is fully documented and is monitored throughout the year.

## How we evaluate internal controls

### The SSRO Audit Committee

The role of the Audit Committee is set out in an earlier section of the Governance Statement: 'the SSRO Audit Committee'.

### Internal audit

During 2015/16 internal audit has been provided by GIAA, which reports its independent opinion on the adequacy and effectiveness of the SSRO's system of internal control and makes recommendations for improvement. The SSRO also encourages and supports liaison between internal and external audit to achieve a more effective audit, based on a clear understanding of respective roles and requirements.

During the year, six audit assignments were completed and final reports issued on:

- qualifying supplier and contract data processing services pilot project;
- probity;
- Audit Committee effectiveness review;
- core financial controls;
- information technology controls; and
- governance.

The SSRO achieved substantial or moderate assurance in all audit assignments.

GIAA presented a summary of the work of internal audit to the Audit Committee at the February 2016 meeting of the Audit Committee, where the Committee also approved an internal audit programme for 2016/17. A Head of Internal Audit Opinion was issued in May 2016.

GIAA attends all Audit Committee meetings and has direct access to me and to the Chair of the Audit Committee. GIAA is afforded the opportunity for a private session with the Audit Committee members at least every year, and this took place in the February 2016 meeting.

### External audit

The external auditor, the Comptroller and Auditor General, is appointed by statute. The National Audit Office (NAO) comments in its annual management letter on governance and controls issues arising from the external audit of the SSRO's financial statements.

A representative of the external auditor is invited to, and attends, all Audit Committee meetings and has direct access to me, to GIAA and to the Chair of the Audit Committee. The external auditor is afforded the opportunity for a private session with the Audit Committee at least once a year.

### Quality assurance over business critical models

I am required to include confirmation that an appropriate quality assurance framework is in place and is used for all business critical models. As part of our project delivery assurance processes, separate independent assurance at key stages of any project will be requested from either the contractor or via an external provider (for example GIAA). There were no projects requiring such assurance during the period.

### Information assurance

The SSRO's Director of Corporate Resources is the Senior Information Risk Owner, supported by the Head of IT and Information Management as the Departmental Security Officer. The SSRO is a data controller under the Data Protection Act 1998 and is subject to the Freedom of Information Act 2000. The SSRO pays appropriate regard to the requirements set out in the HMG Security Policy Framework and the guidance issued by CESG (the National Technical Authority for Information Assurance), Cabinet Office and the Centre for the Protection of National Infrastructure (CPNI). The SSRO IT Strategy makes use of modern and 'cloud' technologies, in line with Cabinet Office guidance for government IT and was reviewed in 2015/16 to ensure ongoing compliance with relevant guidelines and requirements.

In accordance with the IT Strategy, the SSRO partners with an IT service organisation with specialist Microsoft expertise alongside cloud security experts providing cloud connect, protective monitoring and external vulnerability scanning services. The SSRO achieved Cyber Essentials Plus accreditation in March 2016 and has undertaken a gap analysis against ISO 27001, the information security standard, with the aim of working towards future accreditation. All staff were required to complete the Civil Service Learning Protecting Information Level 1 assessment and were provided with training on the Government Security Classifications to support the Information Classifications and Handling Policy and IT Acceptable Use Policy issued to all staff. In parallel with this action on the SSRO's corporate infrastructure, full security accreditation was received on the DefCARS system providing assurance to external stakeholders on the safe collection, storage, handling and analysis of reporting data given to us.

All security breaches and near misses are reported to the Executive Committee and the Audit Committee with individual breaches considered and escalated as appropriate dependent on their seriousness. During the reporting period there were no incidents identified which required the SSRO to inform or escalate a matter to the Information Commissioner's Office.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the SSRO's internal controls. My review of the control framework is informed by the work of the internal auditors and the senior managers of the SSRO, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

## Significant control issues

Despite the significant challenges during the year, no significant control issues arose during 2015/16 that need reporting in the Governance Statement. The National Audit Office and internal audit has not raised any issues of significance in their management letter for 2015/16.

As part of the review of effectiveness, I am required to disclose any actions taken or proposed to deal with significant control issues. Taking into account the tests in Managing Public Money, external audit and value for money reports I can confirm that the SSRO has not had any significant control issues during 2015/16 and currently has no significant weaknesses to address.

The SSRO has upheld internal controls during the year through risk management and other sources of assurance, including internal audit. I therefore believe there are satisfactory controls in place to identify and manage the significant risks faced by the SSRO.

# Remuneration and staff report

## Remuneration Policy

For the Chief Executive, remuneration was set by the SSRO Board. The appointment of the Chief Executive was approved by the Minister of State for Defence Procurement. For the Executive Directors, remuneration is set by the Chief Executive, in line with the SSRO's terms and conditions of employment. All arrangements comply with current government guidance on public sector pay.

## Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Executive Committee of the SSRO during 2015/16, and have been subject to external audit.

### Salary

Salary includes gross salary and any other allowances to the extent that they are subject to UK taxation. This report is based on accrued payments made by the organisation and thus recorded in these accounts.

The Chief Executive was appointed following a competitive selection exercise. The remuneration package was agreed by the SSRO Board.

The Executive Committee structure was agreed by the Board. Appointments were made by the Chief Executive, in line with the SSRO's terms and conditions of service.

### Benefits in kind

The definition and monetary value of benefits in kind covers any benefits provided by the organisation and treated by HM Revenue and Customs as a taxable emolument. All employees are eligible for a travel card for travel within London.

### Performance related pay

Members of the Executive Committee are eligible for an annual performance related payment, which is calculated as a percentage of salary based on the individual's performance as assessed through the appraisal process. No element of a performance payment is pensionable. The performance payments reported relate to performance in 2015/16. There were no payments related to performance in 2014/15.

### Pension

The Chief Executive and Executive Directors are eligible to be members of the Civil Service Pension Scheme. This is a defined benefit scheme, with the same level of benefits for all members. Contribution rates vary according to salary.

### Other terms of employment

The Chief Executive and Executive Directors all have permanent employment contracts. The Chief Executive and Executive Directors are required to give three months' notice if they resign. All other terms and conditions are the same as for other staff.



**Total remuneration and pension entitlements for the Executive Committee (audited)**

2015/16					
	Basic salary	Performance pay and bonuses payable	Benefits in kind (to nearest £100)	Pension benefits	Total Remuneration
	£000	£000		£000	£000
<b>Chief Executive</b>					
Marcine Waterman <sup>[1]</sup> Annual equivalent	140-145 140-145	15-20	2,200	55	210-220
<b>Executive Committee</b>					
Ian McPherson Annual equivalent	10-15 115-120	0	200	4	10-15
Matthew Rees Annual equivalent	5-10 115-120	0	0	1	5-10
Neil Swift Annual equivalent	110-115 115-120	5-10	2,300	44	165-170
Philip Davies <sup>[2]</sup> Annual equivalent	50-55 120-125	0	1,000	20	70-75

[1] Marcine was Interim Chief Executive from 1 April 2015 to 30 September 2015. During this period her salary was £71,000, and she received a bonus of £7,100 and benefits in kind totalling £1,000. Marcine was appointed to Chief Executive on 1 October 2015 and during the period to 31 March 2016 her salary was £71,000, and she received a bonus of £10,400 and benefits in kind totalling £1,200. During 2014/15 Marcine was seconded from the Audit Commission at a total cost of £30,000 - £35,000.

[2] Philip Davis started with the SSRO on 15 July 2015, and left the organisation on 14 December 2015.

[3] There were no Executive Directors appointed as at 31 March 2015.

[4] The SSRO has not made any compensation payments to Executive Directors for loss of office during 2015/16.

[5] Executive Directors job titles, start and end dates are included in the Board appointment dates table.

[6] The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, plus the real increase in any lump sum less the contributions made by the individual. The real increase excludes increases due to information or any increases or decreases due to transfer of pension rights.

	Accrued pension at pension age and related lump sum as at 31 March 2016	Real increase in pension and related lump sum at pension age	CETV at 31 March 2016	Real increase in CETV	Employer contributions to the partnership pension account (to nearest £100)
	£000	£000	£000	£000	
<b>Chief Executive</b>					
Marcine Waterman	3	3	41	31	0
<b>Executive Committee</b>					
Ian McPherson	0	0	4	3	0
Matthew Rees	0	0	0	0	1
Neil Swift	3	3	28	20	0
Philip Davies	1	1	12	8	0

[1] The SSRO has not made any early retirement payments to Directors during 2015/16.

Pension benefits are provided through the civil service pension arrangements. From 1 April 2015 the new 'alpha' pension scheme for civil servants was introduced, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date, all newly appointed employees and those already in service joined alpha.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under alpha are increased annually in line with pensions increase legislation.

Employee contributions are salary-related and range between 4.6 per cent and 8.05 per cent. In alpha, a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March 2016) the member's earned pension account is credited with 2.32 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. Members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent up to 30 September 2015 and 8 per cent and 14.75 per cent from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary up to 30 September 2015 and 0.5 per cent of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is the highest of 65 or the State Pension Age for members of alpha.

Further details about the Civil Service pension arrangements can be found at the website [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk).

### **Cash Equivalent Transfer Values**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the civil service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax, which may be due when pension benefits are taken.

### **Real increase in CETV**

The real increase reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation and contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement); it uses common market valuation factors for the start and end of the period.

## Remuneration for the Chair and non-executive Board members (audited)

The remuneration of the Chair and the non-executive Board members is set by the Minister for Defence Procurement. Remuneration of the Chair and the non-executive Board members is by payment of salaries and they have no entitlement to performance related pay or pension benefits. The Chair is paid £550 per day and the non-executive Board members are paid £500 per day. The Chair is paid an average of two days per week and the non-executive Board members are appointed to work between two and four days per month on average.

The following table summarises the salaries of the Chair and the non-executive Board members.

		2015/16	2014/15
	Date appointed	£000	£000
<b>Interim Chair</b>			
Clive Tucker <sup>[1]</sup> Annual equivalent	September 2014	25-30	5-10 10-15
<b>Previous Chair</b>			
Jeremy Newman (Chair) <sup>[2]</sup> Annual equivalent	July 2014	55-60 55-60	45-50 55-60
<b>Non-Executive Board Members</b>			
Jane Attwood Annual equivalent	September 2014	10-15	5-10 10-15
Marta Phillips <sup>[3]</sup> Annual equivalent	September 2014	10-15	5-10 10-15

[1] Clive Tucker was appointed as Interim Chair from 15 February 2016. Clive's remuneration as Non-Executive Director and as Chair are included in the total remuneration figure above. Clive also worked an additional 21.5 days during the year and his remuneration is included in his total remuneration figure.

[2] Jeremy Newman was the Chair designate from May 2014 until appointment in July 2014. Jeremy resigned from his post on 8 February 2016. Jeremy worked an additional 10 days during the year and this payment is included in the total remuneration figure above.

[3] Marta Phillips worked an additional 6 days during the year and her remuneration is included in her total remuneration figures.

[4] There were no other benefits paid to the Chair or non-executive Board members.

## Fair pay disclosures (audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director and the median remuneration of the organisation's workforce.

Total remuneration includes salary, non-consolidated performance related pay and benefits in kind. The figures do not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions. The banded remuneration of the highest paid director in the SSRO during 2015/16 was £160,000 - £165,000. This was 2.3 times the median remuneration SSRO employees, which was £71,000. There are no figures available for 2014/15 as there were no directors in post.

During the year to 31 March 2016 there were no employees receiving a higher remuneration than the highest paid director. SSRO employee remuneration (including Directors) ranges from £19,000 to £128,000.

## Staff report

### Staff policies

During the 2015/16 financial year the SSRO has treated all employees fairly and in line with the Equalities Act 2010 and our internal policies. The SSRO gives full and fair consideration to all applications, appointing to posts based on merit. The SSRO arranges appropriate training to ensure the continuing development of its employees.

### Staff numbers

The table below sets out the average number of full time equivalent staff employed during the period.

	2015/16	2014/15
	£000	£000
Permanent	22	2
Non payroll <sup>[1]</sup>	4	3
<b>Total</b>	<b>26</b>	<b>5</b>

[1] Non payroll figures include secondments and contractors

### Staff costs (audited)

The following table provides an analysis of the staff costs included the Statement of Comprehensive Expenditure.

	2015/16			2014/15		
	Employed staff	Non payroll staff	Total	Employed staff	Non payroll staff	Total
	£000	£000	£000	£000	£000	£000
Salary	1,769	613	2,382	64	238	302
Social security	189	0	189	7	0	7
Pension	339	0	339	4	0	4
Other benefits	40	0	40	1	0	1
<b>Total costs</b>	<b>2,337</b>	<b>613</b>	<b>2,950</b>	<b>76</b>	<b>238</b>	<b>314</b>

### Staff composition

The table below sets out the average composition of SSRO employees employed during the period.

	2015/16		2014/15	
	Male	Female	Male	Female
Chief Executive and Directors	2	1	0	0
Employees	11	8	2	0
<b>Total</b>	<b>13</b>	<b>9</b>	<b>2</b>	<b>0</b>

### Staff sickness absence

During 2015/16 the average level of sickness absence was one day per employee.

### Exit packages (audited)

There were no redundancies or other departure costs during the period to 31 March 2016.

### Consultancy expenditure

The SSRO had no consultancy expenditure during 2015/16.

## Off-payroll engagements

During the year the SSRO had two off-payroll engagements for more than £220 per day that lasted for longer than six months (2014/15: nil).

As at 31 March 2016 the SSRO had one off-payroll contract engagement for more than £220 per day that lasted for longer than six months (2014/15: nil).

These two SSRO off-payroll engagements were via secondment arrangements. As these engagements are secondments from other organisations, they are considered low risk therefore assurance as to whether individuals are paying tax has not been required.

The SSRO had nine Board members and/or senior officials with significant responsibility during the year to 31 March 2016 (2014/15: nil). None of these Board members and/or senior officials were off-payroll engagements.

# Parliamentary accountability and audit report

## Regularity of expenditure (audited)

All expenditure incurred during 2015/16 was in accordance with treasury and other government guidance. All expenditure was regular and in line with the purposes for which Grant in Aid was provided.

## Long term expenditure trends

The SSRO is still a new organisation with the year to 31 March 2016 being its first full year of operation. Long term expenditure trends will become clearer as the organisation establishes its work programmes and resource requirements.

## Losses and special payments (audited)

There were no losses or special payments during the year to 31 March 2016 (2014/15: nil).

## Remote contingent liabilities

The SSRO has no remote contingent liabilities. The SSRO has a contingent liability relating to potential dilapidations which is disclosed in note 14 of the accounts.

Marcine Waterman

Accounting Officer

23 June 2016

Signed in respect of the Accountability Report.



# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Single Source Regulations Office for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

## Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Single Source Regulations Office's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Single Source Regulations Office and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Single Source Regulations Office's affairs as at 31 March 2016 and of the net operating expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability Disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

**Date: 27 June 2016**

# Financial Statements

# Statement of Comprehensive Net Expenditure

for the year to 31 March 2016

		Year to 31 March 2016	Period to 31 March 2015
	Note	£000	£000
<b>Income</b>			
Other operating income	2	(4)	0
<b>Total income</b>		<b>(4)</b>	<b>0</b>
<b>Expenditure</b>			
Staff costs	3	2,950	314
Other expenditure	4	1,974	724
<b>Total expenditure</b>		<b>4,924</b>	<b>1,038</b>
<b>Net Operating Expenditure</b>		<b>4,920</b>	<b>1,038</b>

All expenditure relates to continuing operations. The MOD incurred an estimated £46,000 of other expenditure during the period to 31 March 2016 (2014/15: £187,000 of staff costs and £349,000 of other expenditure), which is not reflected in these accounts.

The 2014/15 Financial Statements covered the period from 14 July 2014 to 31 March 2015.

The Notes to the Financial Statements on Pages 77 to 89 form part of these accounts.

# Statement of Financial Position

as at 31 March 2016

		As at 31 March 2016	As at 31 March 2015
	Note	£000	£000
<b>Non-current assets</b>			
Plant and equipment	5	460	366
Intangible assets	6	45	3
<b>Total non-current assets</b>		<b>505</b>	<b>369</b>
<b>Current assets</b>			
Other receivables	7	70	28
Cash and cash equivalents	8	232	1,651
<b>Total current assets</b>		<b>302</b>	<b>1,679</b>
<b>Total assets</b>		<b>807</b>	<b>2,048</b>
<b>Current liabilities</b>			
Trade and other payables	9	322	262
<b>Total current liabilities</b>		<b>322</b>	<b>262</b>
<b>Total assets less current liabilities</b>		<b>485</b>	<b>1,786</b>
<b>Taxpayers' equity</b>			
General Fund	10	485	1,786
<b>Total taxpayers' equity</b>		<b>485</b>	<b>1,786</b>

The Notes to the Financial Statements on Pages 77 - 89 form part of these accounts.

**Marcine Waterman**

**Accounting Officer**

**23 June 2016**

# Statement of Cash Flows

for the year to 31 March 2016

		Year to 31 March 2016	Period to 31 March 2015
	Note	£000	£000
<b>Cash flows from operating activities</b>			
Net operating expenditure		(4,920)	(1,038)
Depreciation	5	63	6
Amortisation	6	29	0
Increase in other receivables	7	(42)	(28)
Increase in trade payables	9	60	262
<b>Net cash inflow from operating activities</b>		<b>(4,810)</b>	<b>(798)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(157)	(372)
Purchase of intangible assets	6	(71)	(3)
<b>Net cash outflow from investing activities</b>		<b>(228)</b>	<b>(375)</b>
<b>Cash flows from financing activities</b>			
2014/15 Grant in aid		0	1,648
2015/16 Grant in aid		3,619	1,176
Grant in aid	10	3,619	2,824
<b>Net cash inflow from financing activities</b>		<b>3,619</b>	<b>2,824</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<b>(1,419)</b>	<b>1,651</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1,651</b>	<b>0</b>
<b>Cash and cash equivalents at the period end</b>	8	<b>232</b>	<b>1,651</b>

The Notes to the Financial Statements on Pages 77 - 89 form part of these accounts.

# Statement of Changes in Taxpayers' Equity

for the period to 31 March 2016

	£000
<b>General fund opening balance</b>	<b>0</b>
Grant in aid received for 2014/15	1,648
Grant in aid received for 2015/16 <sup>[1]</sup>	1,176
Total Grant in aid received for 2014/15	2,824
Total comprehensive expenditure	(1,038)
<b>General fund as at 31 March 2015</b>	<b>1,786</b>
Total Grant in aid received	3,619
Total comprehensive expenditure	(4,920)
<b>General fund as at 31 March 2016</b>	<b>485</b>

[1] Grant in Aid of £1,176,000 relating to 2015/16 was received from the MOD earlier than requested on 31 March 2015.



# Notes to the Financial Statements

**The notes that follow form part of the financial statements.**

## Note 1: Accounting conventions and policies

### 1.1 Basis of accounts preparation

These financial statements have been prepared in accordance with the 2015/16 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the SSRO for the purpose of giving a true and fair view has been selected. The policies adopted by the SSRO are outlined below. They have been applied consistently in dealing with items that are considered material to the accounts. We also include additional disclosures in line with our Accounts Direction issued by the MOD (Appendix 1).

### 1.2 Accounting convention

We prepare these accounts using the historical cost convention, adjusted to account for the:

- revaluation of non-current assets to their value to the business by reference to their current costs; and
- valuation of financial instruments at fair value (note 1.11).

### 1.3 Going concern

These financial statements are prepared on a going concern basis.

### 1.4 Recent changes to accounting standards affecting the preparation of accounts

We have considered, under International Accounting Standard (IAS) 8, whether there have been any changes to accounting policies arising from IFRS that have an impact on the current or prior year, or may have an effect on future years. We have reviewed any new or amended standards issued by the International Accounting Standards Board but not yet effective, to decide whether we should make any disclosures in respect of those new IFRS that are, or will be, applicable. There are no changes impacting the 2015/16 financial statements.

## 1.5 Grant in aid

We treat grants, whether revenue or capital, as contributions from controlling parties giving rise to financial interest in our organisation and we credit them directly to the fund reserve.

## 1.6 Value added tax (VAT)

The SSRO is not registered for VAT, therefore any VAT incurred is not recoverable. We expense any VAT to the Statement of Net Expenditure in the period it is incurred.

## 1.7 Property, plant and equipment

We capitalise office refurbishments, computer equipment purchases and other equipment purchases for individual purchases over £1,000 or grouped purchases over £5,000.

## 1.8 Intangible assets

We capitalise internally generated assets and new software, including any licences that cover the life of the software for individual purchases over £1,000 or grouped purchases over £5,000. Internally generated assets are capitalised once they meet the criteria for the development phase under IAS 38. Research costs are expensed in the year they relate to.

## 1.9 Donated assets

Donated assets are capitalised at their current value on receipt, and this value is credited to the Statement of Comprehensive Income. Donated assets are depreciated in the same way as other non-current assets.

## 1.10 Depreciation and amortisation

We provide for depreciation on all property, plant and equipment assets and amortisation of intangible assets. We calculate depreciation charges to write off the cost less the estimated residual value of each asset in equal annual instalments over its expected useful life. Unless otherwise appropriate, we have set the expected useful life of each category of asset as:

- leasehold improvements, over the remaining term of the lease;
- furniture, fittings and office equipment five to seven years;
- computer equipment, three to five years; and
- intangible assets, three to five years.

## 1.11 Financial Instruments

The fair value of our financial instruments (other receivables and payables) are valued at their nominal amount as they are due in less than 12 months.

### 1.12 Operating leases

We charge operating lease rentals on a straight-line basis over the lease term.

### 1.13 Provisions

In accordance with IAS 37, provisions are disclosed in the Statement of Financial Position for legal and constructive obligations in existence and the end of the reporting period if the payment amount to settle the obligation is probable and can be reliably estimated.

### 1.14 Accounting estimates

Judgements and estimates are required in applying our accounting policies that may affect the amounts we include in our financial statements. The main area is:

- Non-current assets (notes 5 and 6) - we review non-current assets each year for impairment, in line with accounting standards.

### 1.15 Pensions

SSRO staff are eligible for a pension provided by the Principal Civil Service Pension Scheme (PCSPS). The SSRO has been included in Schedule 1 of the Superannuation Act 1972 as per schedule 4 of the Defence Reform Act 2014.

## Note 2: Operating income

The note below provides a breakdown of the operating income shown in the Statement of Comprehensive Expenditure.

<b>Operating income</b>	<b>Year to 31 March 2016</b>	<b>Period to 31 March 2015</b>
	<b>£000</b>	<b>£000</b>
Non cash income	4	0
<b>Total operating income</b>	<b>4</b>	<b>0</b>

The SSRO received 8 laptops from the MOD which have been recorded as donated assets in these accounts.

## Note 3: Staff costs

The note below provides a breakdown of the staff costs shown in the Statement of Comprehensive Expenditure.

<b>Staff costs</b>	<b>Year to 31 March 2016</b>	<b>Period to 31 March 2015</b>
	<b>£000</b>	<b>£000</b>
Salary	2,382	302
Social security	189	7
Pension	339	4
Other benefits	40	1
<b>Total operating income</b>	<b>2,950</b>	<b>314</b>

Further information on staff costs and numbers is included in the Staff report (page 65).

## Note 4: Other expenditure

The note below provides a breakdown of the other expenditure shown in the Statement of Comprehensive Expenditure.

Other expenditure	Year to 31 March 2016	Period to 31 March 2015
	£000	£000
Information Technology	564	155
Accommodation lease costs	339	169
Professional fees	331	130
Other accommodation costs	195	67
Recruitment	143	67
Legal services	83	44
Depreciation	63	6
Outsourced services	54	32
Staff training	35	1
Publications	31	9
Amortisation	29	0
Travel and subsistence	29	2
Audit fee - internal	28	4
Supplies and services	21	18
Audit fee - external	20	20
Insurance	7	0
Bank charges	1	0
Other lease costs	1	0
<b>Total other expenditure</b>	<b>1,974</b>	<b>724</b>

The MOD incurred expenditure during the year which has not been recharged to the SSRO. The MOD has provided details of these costs, which we have reviewed but not verified. These are included in the table below for information.

<b>MOD expenditure</b>	<b>Year to 31 March 2016</b>	<b>Period to 31 March 2015</b>
	<b>£000</b>	<b>£000</b>
Staff costs	0	187
Accommodation costs	22	167
Information Technology	24	90
Professional fees	0	89
Supplies and services	0	3
<b>Total MOD expenditure</b>	<b>46</b>	<b>536</b>

## Note 5: Property, plant and equipment

This note provides an analysis of the movements in property, plant and equipment shown in the Statement of Financial Position.

	Leasehold improvements	Furniture and fittings	Information Technology	Total
	£000	£000	£000	£000
<b>Cost</b>				
At 1 April 2015	286	56	30	372
Additions	23	29	105	157
<b>At 31 March 2016</b>	<b>309</b>	<b>85</b>	<b>135</b>	<b>529</b>
<b>Depreciation</b>				
At 1 April 2015	3	1	2	6
Charged in year	37	12	14	63
<b>At 31 March 2016</b>	<b>40</b>	<b>13</b>	<b>16</b>	<b>69</b>
<b>Net book value</b>				
<b>At 31 March 2016</b>	<b>269</b>	<b>72</b>	<b>119</b>	<b>460</b>
<b>Cost</b>				
At 1 April 2014	0	0	0	0
Additions	286	56	30	372
<b>At 31 March 2015</b>	<b>286</b>	<b>56</b>	<b>30</b>	<b>372</b>
<b>Depreciation</b>				
At 1 April 2014	0	0	0	0
Charged in year	3	1	2	6
<b>At 31 March 2015</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>6</b>
<b>Net book value</b>				
<b>At 31 March 2015</b>	<b>283</b>	<b>55</b>	<b>28</b>	<b>366</b>

All property, plant and equipment assets are owned by the SSRO. There have been no impairments and no revaluations during this period. Assets are held on a depreciated historical cost basis, as a proxy for their current value in existing use. Included within Information Technology are donated assets from the MOD of £6,000 (the capitalised value includes the cost of the donated assets from the MOD of £4,000, and SSRO costs of £2,000 to bring them into use).

## Note 6: Intangible assets

This note provides an analysis of the movements in intangible assets shown in the Statement of Financial Position.

	Software
	£000
<b>Cost</b>	
At 1 April 2015	3
Additions	71
<b>At 31 March 2016</b>	<b>74</b>
<b>Amortisation</b>	
At 1 April 2015	0
Charged in year	29
<b>At 31 March 2016</b>	<b>29</b>
<b>Net book value</b>	
<b>At 31 March 2016</b>	<b>45</b>
<b>Cost</b>	
At 1 April 2014	0
Additions	3
<b>At 31 March 2015</b>	<b>3</b>
<b>Amortisation</b>	
At 1 April 2014	0
Charged in year	0
<b>At 31 March 2015</b>	<b>0</b>
<b>Net book value</b>	
<b>At 31 March 2015</b>	<b>3</b>

All intangible assets are owned by the SSRO. During the period to 31 March 2015 £143 was depreciated on intangible assets. There have been no impairments during the year.



## Note 7: Other receivables

This note provides an analysis of the other receivables line in the Statement of Financial Position.

	31 March 2016	31 March 2015
	£000	£000
Other receivables	8	0
Prepayments	62	28
<b>Total other receivables</b>	<b>70</b>	<b>28</b>

All receivables balances were with non-government bodies.

## Note 8: Cash and cash equivalents

The following note summarises the SSRO's cash and cash equivalents as shown in the Statement of Financial Position.

	31 March 2016	31 March 2015
	£000	£000
Balance at 1 April 2015	1,651	0
Net change in cash and cash equivalents	(1,419)	1,651
<b>Balance at 31 March 2016</b>	<b>232</b>	<b>1,651</b>

All cash balances are held with the Government Banking Service.

## Note 9: Trade and other payables

This note analyses the SSRO's trade and other payables as shown in the Statement of Financial Position.

	31 March 2016	31 March 2015
	£000	£000
Trade and other payables	0	0
Accruals	322	262
<b>Total trade and other payables</b>	<b>322</b>	<b>262</b>

There were no outstanding invoices at 31 March 2016 (2014/15: nil). During the period to 31 March 2016 96 per cent of undisputed invoices were paid within 5 days (2014/15: 77 per cent).

This note provides an analysis of other payables between government and external bodies.

	31 March 2016	31 March 2015
	£000	£000
Other Central Government bodies	53	0
External	269	262
<b>Total other payables</b>	<b>322</b>	<b>262</b>

## Note 10: General Fund

This note shows the movement in the general fund for activities during the year.

	Year to 31 March 2016	Period to 31 March 2015
	£000	£000
<b>General fund brought forward</b>	<b>1,786</b>	<b>0</b>
Grant in aid received		
Grant in aid 2014/15	0	1,648
Grant in aid 2015/16	3,619	1,176
<b>Total grant in aid received</b>	<b>3,619</b>	<b>2,824</b>
Net expenditure	(4,920)	(1,038)
<b>General Fund carried forward</b>	<b>485</b>	<b>1,786</b>

Grant in Aid of £1,176,000 relating to 2015/16 was received from the MOD earlier than requested on 31 March 2015.

## Note 11: Financial Instruments

As the cash requirements of SSRO are met through Grant in Aid, financial instruments play a limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the SSRO's expected purchase and usage requirements. The SSRO has little exposure credit, liquidity or market risk.

## Note 12: Capital commitments

The note below details the SSRO's future contracted capital commitments that are not reflected in the accounts as at 31 March 2016.

	31 March 2016	31 March 2015
	£000	£000
ICOM	20	0
Kier	0	25
<b>Total contracted capital commitments</b>	<b>20</b>	<b>25</b>

## Note 13: Commitments under leases

### 12.1 Property lease

The note below shows future minimum lease payments for the SSRO's property operating lease for the period.

	31 March 2016	31 March 2015
	£000	£000
Due within one year	346	338
Due up to five years	1,473	1,437
Over five years	886	1,267
<b>Total future minimum payments for non-cancellable operating leases for properties</b>	<b>2,705</b>	<b>3,042</b>

The SSRO spent £338,000 on operating lease payments for property during the period to 31 March 2016 (2014/15: £169,000).

### 12.2 Photocopier lease

The note below shows future minimum lease payments for the SSRO's photocopier lease for the period.

	31 March 2016	31 March 2015
	£000	£000
Due within one year	1	1
Due up to five years	1	2
<b>Total future minimum payments for non-cancellable photocopier lease</b>	<b>2</b>	<b>3</b>

The SSRO spent £953 on photocopier lease payments during the period to 31 March 2016 (2014/15: £294).

## Note 14: Provisions, contingent asset and liabilities

Future costs referring to potential dilapidations relating to the lease for Finlaison House are not included in the accounts. It is currently unclear whether the SSRO will be required to make any payment in the future therefore an amount cannot be accurately estimated.

## Note 15: Related party transactions

The SSRO's related party disclosures meet the requirements of IAS 24. Disclosure relates to key management personnel of the SSRO, or their close family members, who are in a position of significant influence resulting from being elected to, receiving remuneration from or being appointed to any organisation

- that is a government department; or
- that is a provider or receiver of significant services to, or from the SSRO.

Such transactions are carried out on an arm's length basis and are conducted on normal commercial terms. No amounts were written off or forgiven during the year and outstanding balances were settled under normal trading terms.

All related party transactions over £1,000 and balances will be disclosed as at 31 March 2016 under the following headings:

### Key management personnel

There are no related party transactions to report in the period to 31 March 2016 for key personnel.

### Ministry of Defence (MOD)

The SSRO is a Non Departmental Public Body sponsored by the MOD. During the year the SSRO received grant in aid from the MOD of £3,619,000 (2014/15: £2,824,000). The SSRO was also invoiced £10,000 for services provided to it by the MOD (2014/15: nil). In addition, there was £12,000 due as at 31 March 2016 (2014/15: nil).

### Other government departments

**Government Actuaries Department (GAD):** during the year, the SSRO was invoiced £484,000 by GAD for services it received (2014/15: £242,000). There was £13,000 due as at 31 March 2016 (2014/15: £14,000).

**Business Innovation and Skills:** during the year the SSRO was invoiced £4,000 for services it received (2014/15: £4,000). There were no balances due or payable by the SSRO as at 31 March 2016 (2014/15: £4,000).

**Ministry of Justice:** during the year the SSRO was invoiced £5,000 for services it received (2014/15: £7,000). There were no balances due or payable to the SSRO as at 31 March 2016 (2014/15: nil).

**OFGEM:** during the year the SSRO was invoiced £67,000 for services provided to it (2014/15: £27,000). There were no balances due or payable to the SSRO as at 31 March 2016 (2014/15: £27,000).

## Note 16: Events occurring after the end of the reporting year

The SSRO's financial statements are laid before the Houses of Parliament by the Ministry of Defence. International Accounting Standard 10 (IAS 10) requires the SSRO to disclose the date on which the certified accounts are dispatched by the SSRO to the Ministry of Defence.

The Accounting Officer authorised these financial statements for issue on 27 June 2016.

The authorised date for issue is the date the accounts are certified by the Comptroller and Auditor General.

# Appendix 1: Accounts Direction

## ACCOUNTS DIRECTION GIVEN BY THE SECRETARY OF STATE FOR DEFENCE IN ACCORDANCE WITH SCHEDULE 4, 12(2) OF THE DEFENCE REFORM ACT 2014

1. This direction applies to the Single Source Regulations Office (SSRO)
2. The SSRO shall prepare accounts in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (the FReM) issued by HM Treasury which is in force for the financial year for which the accounts are being prepared. The accounts shall also comply with any additional disclosure or other requirements which have been agreed with the Department or are mandated by relevant UK legislation (for example The Companies Act) or are issued by HM Treasury or the Cabinet Office.
3. The accounts shall be prepared so as to:
  - a. give a true and fair view of the state of affairs as at 31st March each year and of the net operating costs, recognised gains and losses and cash flows for the financial year then ended; and
  - b. provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.
5. Annual Accounts shall be published for the reporting period ending 31 March 2015 and subsequent financial years, and laid before the House of Commons in accordance with the Parliamentary reporting timetable for the year to which they relate.
6. In addition, SSRO shall operate governance arrangements sufficient to ensure all income and expenditure conforms with the rules on regularity and propriety set out in Managing Public Money.



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