

Programme of Value for Money Studies

Consultation Response Form

Your details

Name:

Martin Williams

Organisation:

Babcock International Group

Position:

Head of Finance - MOD Accounting

Consultation questions

When answering the consultation questions, it would be very helpful if you could support your responses with additional explanation and detail, particularly on areas where you disagree. This will help us to understand the basis for your answer and inform our decisions on the programme of value for money studies. As a minimum, please include the paragraph number your comment refers to.

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Yes

No

Programme of Value for Money Studies

Consultation Response Form

Value for money programme

Question 1. Do you agree that the proposed topics would be useful?

Yes No

Please add comments to support your answer:

The topics selected appear reasonable items for a review into value for money, however we would highlight that comparability and understanding of variances will be complex. The nature of single source contracts means that the providers of the services have unique capabilities (such as facilities, skills, intellectual property etc.), which make direct comparisons difficult.

Question 2. Which in-depth studies do you consider the most pressing and should be prioritised in the next two years?

Please add comments:

We believe the two most pressing studies, from the list of suggested topics, would be the 'Amendments to Contracts' and 'Use of Pricing Methods in Single Source Contracting'. The number, timing and processing of amendments to contracts is an area which we believe has historically contributed significantly to the cost of contracts.

Question 3. Do you have any suggestions for additional studies? How would you prioritise them?

Yes No

Please add comments to support your answer:

We suggest that reviewing the following topics would help identify areas where there is value to be found:

- Efficient project governance and joint partnering between MOD and industry
- Cost of MOD imposed requirements which do not exist in other industries (e.g. security, restrictive working practises, golden share etc.)
- Implementation of continuous improvement processes
- Cost impact of reporting and compliance requirements

It would make sense to prioritise these through a top down approach, looking at the governance and working practises first.

Programme of Value for Money Studies

Consultation Response Form

Question 4. Would your organisation be interested in cooperating with the SSRO to develop any studies? If so, what topic(s) would you like to cover and how would you suggest we work together?

Yes

No

Please add comments to support your answer:

We would be happy to support and work collaboratively with the SSRO in order to help it meet its statutory duties.

The topics of particular interest to us would be those suggested in our response to Question 3, relating to project governance, MOD imposed requirements, continuous improvement processes and the impact of reporting and compliance.

Question 5. Please add any additional comments below, stating the paragraph and page numbers in the consultation document which your comments refer to.

Section 2 - we would like to highlight that benchmarking and direct comparison between contracts and businesses is likely to be difficult. By the nature of the single source contracts, they tend to be dependent on either unique skills or locations (otherwise they would probably have been competitively tendered).

Section 3 - we note that data confidentiality is of critical importance to us, and any other listed company, due to regulations surrounding the release of market sensitive information. This would also mean careful consideration must be given to ensure reports do not allow analysts to indirectly derive specific market sensitive information.

Programme of Value for Money Studies

Consultation Response Form

Your details

Name:

David Green

Organisation:

BAE Systems

Position:

Finance Director, Shared Services

Consultation questions

When answering the consultation questions, it would be very helpful if you could support your responses with additional explanation and detail, particularly on areas where you disagree. This will help us to understand the basis for your answer and inform our decisions on the programme of value for money studies. As a minimum, please include the paragraph number your comment refers to.

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Yes

No

Programme of Value for Money Studies

Consultation Response Form

Value for money programme

Question 1. Do you agree that the proposed topics would be useful?

Yes No

Please add comments to support your answer:

All of the proposed topics could add value and we have provided suggestions for additional topics we believe the SSRO should consider in response to Question 3. The findings of studies must however be open to challenge, within the context of any particular circumstances and the application of any findings must be done with those circumstances in mind.

Question 2. Which in-depth studies do you consider the most pressing and should be prioritised in the next two years?

Please add comments:

No preference

Question 3. Do you have any suggestions for additional studies? How would you prioritise them?

Yes No

Please add comments to support your answer:

We suggest the following that the SSRO should consider adding to the programme:

- The benefits to MoD of partnership with contractors vs competition;
- MoD decision making and commercial processes and whether they can be streamlined;
- Whether contractor / MoD interfaces are overly costly due to the nature of the commercial relationship;
- Whether a proper trade-off between specification, cost and risk is undertaken / utilised on major developments;
- Whether design to cost is a properly used method of constraining costs on a programme.

Programme of Value for Money Studies

Consultation Response Form

Question 4. Would your organisation be interested in cooperating with the SSRO to develop any studies? If so, what topic(s) would you like to cover and how would you suggest we work together?

Yes No

Please add comments to support your answer:

BAE Systems remains committed to assisting the SSRO and this is no exception. We would be interested in working with SSRO in any areas that impact our business. We suggest initial workshops should be held with all interested parties to set out the purpose of a particular study, methodologies to be adopted, rules of engagement etc.

Question 5. Please add any additional comments below, stating the paragraph and page numbers in the consultation document which your comments refer to.

Section 2.1 - We need to understand to whom benchmark data will be provided and in what context. Benchmarking is one way of measuring value for money but only provides a financial metric not a value metric. Our experience of benchmarking is that it provides a good basis for challenge but rarely are comparators so clear that it provides an instant answer. It may be that a company with a high relative cost provides better control, service or innovation and taken together this offers value for money.

Section 4.1 (first bullet) - This could signal a thinking pattern that higher than benchmark cost must mean lower value for money. We do not believe this is automatically the case; the issue of context and particular circumstance is fundamental.

Programme of Value for Money Studies

Consultation Response Form

Your details

Name:

Michael Hayes

Organisation:

Boeing Defence UK Ltd

Position:

Commercial Director

Consultation questions

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Yes

No

Programme of Value for Money Studies

Consultation Response Form

Value for money programme

Question 1. Do you agree that the proposed topics would be useful?

Yes No

Please add comments to support your answer:

There is the potential for all parties to understand the economic dynamics of being critically involved in an industry where there is, at best, only a level demand for capability, the potential for real price competition is limited and where many facilities used in providing capability are bordering on being strategic assets.

Question 2. Which in-depth studies do you consider the most pressing and should be prioritised in the next two years?

Please add comments:

1. Cost of maintaining facilities*
2. Amendments to contracts
3. Treatment of inflation
4. Overhead rates

* Noting that there are not enough SICRs available yet to provide a statistically valid data-set

Question 3. Do you have any suggestions for additional studies? How would you prioritise them?

Yes No

Please add comments to support your answer:

Programme of Value for Money Studies

Consultation Response Form

Question 4. Would your organisation be interested in cooperating with the SSRO to develop any studies? If so, what topic(s) would you like to cover and how would you suggest we work together?

Yes

No

Please add comments to support your answer:

The most appropriate studies in which to cooperate would be;

- Contract amendments
- Treatment of inflation
- Overhead rates

It is suggested that initially there would be joint scoping and work methodology planning, followed by assistance with data analysis and interpretation. It is likely that workshops would be required in the early stages, then perhaps a joint steering group to support the teams.

Question 5. Please add any additional comments below, stating the paragraph and page numbers in the consultation document which your comments refer to.

n/a

Programme of Value for Money Studies

Consultation Response Form

Your details

Name:

Tim Watkins

Organisation:

FinExperts Limited

Position:

Director

Consultation questions

When answering the consultation questions, it would be very helpful if you could support your responses with additional explanation and detail, particularly on areas where you disagree. This will help us to understand the basis for your answer and inform our decisions on the programme of value for money studies. As a minimum, please include the paragraph number your comment refers to.

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Yes

No

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Consultation Response Form

Value for money programme

Question 1. Do you agree that the proposed topics would be useful?

Yes No

Please add comments to support your answer:

7.1 Treatment of inflation. The SSRO can have no influence on 'How inflation is accounted for' that is for the Directors to decide in compliance for with IFRS GAAP. The SSRO may consider PRICING of inflation under single source contracts; however this must fully consider where the risk in that pricing lays. There is overlap with the MoD's DASA/DESA function which already provides this service. Pricing of inflation is not seen as a problematic area therefore no value can be added.

7.1 Pay rates. Considering pay rates is extremely difficult bearing in mind often the singular and significant skill sets that single source contractors bring to bear, and their geographical peculiarities. No value can be added in considering pay rate, due to individual issues (history of settlements, union structure, skill shortages, unique and critical requirements for those skills, and other T&C changes in the pay settlement).

7.1 Overhead rates. This is a very large question, considering the methodology is an allocation/apportionment issue (QMAC) and is not a core VFM question. Looking at overhead costs at the macro level and not individual elements will be meaningless.

These tasks are ultra-vires to the DRA

Question 2. Which in-depth studies do you consider the most pressing and should be prioritised in the next two years?

Please add comments:

Question 3. Do you have any suggestions for additional studies? How would you prioritise them?

Yes No

Please add comments to support your answer:

From the data available to the SSRO no meaningful studies are possible (see answers to question 5)

Programme of Value for Money Studies

Consultation Response Form

Question 4. Would your organisation be interested in cooperating with the SSRO to develop any studies? If so, what topic(s) would you like to cover and how would you suggest we work together?

Yes No

Please add comments to support your answer:

FinExperts would be pleased to assist the SSRO in this and other engagements. Indeed, wider engagement is a key concern to industry and MoD.

The SSRO is a new and highly independent body; however it has no detailed experience and knowledge of neither defence contracting nor the unique industrial base it calls on. The SSRO has been issuing papers it has created on its own for consultation, is then having an arm's length consultation and modifying its first thoughts only at the margins.

Some of the SSRO output is therefore poorly considered and incomplete, giving both the MoD and industry issues in pricing and reporting contracts. The SSRO needs to start engaging directly with both parties, and in the majority of cases there would be consensus in solutions from both sides, and a properly considered set of rules would be developed.

Programme of Value for Money Studies

Consultation Response Form

Question 5. Please add any additional comments below, stating the paragraph and page numbers in the consultation document which your comments refer to.

1.1 To achieve balance and independence, the SSRO must aim to ensure VFM AND 'those contracts are paid a fair and reasonable price'. The SSRO has addressed VFM only, and therefore is showing a lack of balance unless it will quickly address 'ensuring contractors are paid a fair and reasonable price'.

7.1 Data to meaningfully analyse, for example back office costs.

The SSRO lacks data and the access to data to provide meaningful analysis to costs:

- QMACs differ, how can commercial costs be analysed when in some contractors the boundary of what is direct and indirect commercial costs differ. The MoD frequently compare some contractors, seeing a high rate, and comparing with another lower rate. The fact that the high rate, with less hours equates to a lower cost is often missed.
- Defence contractors have different costs structures to other entities, the requirements of working with the MoD, security issues, configuration management, and the unique outputs mean that cost structures are often not comparable. The cost of running a nuclear licenced site is dependent on the activities, the ONR, and the legacy assets/activities.
- The cost functional areas will not be defined in consistent ways. For example payroll can be in finance or HR, the cost of printing can be in IT or the cost centre that the printer is located in.
- IT as a wider example:
 - Some companies have an IT service company, therefore at the entity level there is no granular information, simply a recharge
 - Some groups incur IT in disparate locations, remove the cost to one entity and then recharge for usage, or recharge a net balance. This is very difficult to analyse and compare
 - UK contractors have widely varying IT cost structures
 - Legacy issues of advanced or poor IT systems
 - Investment costs in improvement in IT
 - The degree of automation

The SSRO to ensure value for money needs to consider wider aspects of cost to the taxpayer:

- Late contracting by the MoD.
- Poor specification, subsequent changes to contracts through poor specification.
- MoD 'man marking' of contractors of outsourced requirements.
- MoD contracting systems being complex and costly to comply with.

The SSRO is using its resources in this area for nugatory purposes, it needs to redirect itself to direct engagement with MoD and industry (which can be very beneficial in a tripartite format, where there will be much consensus, a consideration of the detail, avoiding unintended consequences. The SSRO can then act as final and informed arbiter in the few cases that there is disagreement). The SSRO needs to improve the SSCSs urgently, and deliver the long promised industry engagement on contract/supplier reporting.

Programme of Value for Money Studies

Consultation Response Form

Your details

Name:

Sir Brian Burridge

Organisation:

Finmeccanica UK Ltd

Position:

SVP UK Corporate

Consultation questions

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Yes

No

Programme of Value for Money Studies

Consultation Response Form

Value for money programme

Question 1. Do you agree that the proposed topics would be useful?

Yes

No

Please add comments to support your answer:

We recognise the need for the SSRO to create and nurture the body of knowledge related to single source procurement. We also recognise that this has to be a joint endeavour by industry, the SSRO and the MOD if the outcomes of the related research topics are to be truly robust.

At this stage, however, we consider that the areas for study should be more targeted, rather than seeking to cover the broad range of topics listed in the consultation document. Our responses to Questions 3 and 4 below make specific proposals but, in general, we see the need to focus the finite levels of effort that both industry and the SSRO might apply to these studies to those aspects that would add specific value to the discharge of the SSRO's remit under the Defence Reform Act 2014.

We also consider that the SSRO research should also account for the widely different business models that exist among companies operating in the UK defence industrial sector. For example, analysis of the landscape of those companies that deal predominately with single source contracts and those companies, like Finmeccanica, whose UK businesses (Selex-ES and AgustaWestland) maintain a broad product range and operate in a variety of competitive markets; not least in operating as a major UK exporter. Further, an increasing proportion of our business is non-MOD which, apart from its significant contribution to the UK economy, would need to be reflected in any research aimed at understanding value for money.

Programme of Value for Money Studies

Consultation Response Form

Question 2. Which in-depth studies do you consider the most pressing and should be prioritised in the next two years?

Please add comments:

Given our comments in response to Q1 above, we would recommend focus on the following areas of study:

- Use of pricing methods in single source contracts. We see this as the fundamental bedrock on which much of the single-source process rests. This could consider how the pricing methods are used and any potential future improvements to assist innovative approaches that are beneficial to both UK Government and industry.
- The treatment of inflation in single source contracts. The materiality of inflation is likely to have increased impact as we move through the economic cycle. This study could focus on long term contracts where a variation of price formula may be applied. It could consider this in the context of appropriate indices given the wide diversity of equipment, technology and services that may be procured across different single source contracts. (Please also refer also to our response to Question 3.)

Programme of Value for Money Studies

Consultation Response Form

Question 3. Do you have any suggestions for additional studies? How would you prioritise them?

Yes

No

Please add comments to support your answer:

We think that potential areas to consider in addition to those identified in our response to Q2 are as follows:

- Further to our recommendations in response to Q2, we would make a general observation about the term "VfM". VfM is a broad concept that measures the output relative to the price paid (Lord Currie's review of SSPR 2011), rather than a simpler focus on cost and efficiency. It would be helpful to industry to ensure that the wider aspects of VfM are also evaluated. It is conceivable that a true evaluation would require each contract to have its own definition of the "value" being procured and the measures by which "value" delivery performance can be assessed.
- This study might also consider for example any specific requirements that are applied to MoD contracts that could reduce industry costs and thus improve value.
- Within this wider VfM study, it may also be appropriate to also consider amendments to contracts rather than seeing that aspect as the subject of a study in its own right.

Programme of Value for Money Studies

Consultation Response Form

Question 3. Would your organisation be interested in cooperating with the SSRO to develop any studies? If so, what topic(s) would you like to cover and how would you suggest we work together?

Yes No

Please add comments to support your answer:

Given our contributions to previous consultations and our broader engagement with the SSRO, we would be interested in co-operating with the SSRO to develop the studies suggested in response to Questions 2 and 3 above.

Question 4. Please add any additional comments below, stating the paragraph and page numbers in the consultation document which your comments refer to.

General comment: some of the areas suggested for further study are subject to many different variables, dependent upon the type of business being considered (as indicated in our response to Question 1 above).

In our view the application of benchmarks and industrial averages will be fraught with difficulty, as it will be extremely difficult to compare these on a "like for like basis" and thus to make valid comparisons. Hence the suggestions we have proposed in response to other Questions 2 and 3 above.

Programme of Value for Money Studies

Consultation Response Form

Your details

Name:

Kelly Patel

Organisation:

General Dynamics UK Ltd

Position:

Senior Commercial Manager

Consultation questions

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No

Programme of Value for Money Studies

Consultation Response Form

Value for money programme

Question 1. Do you agree that the proposed topics would be useful?

Yes No

Please add comments to support your answer:

The topics are useful, but inflation; pay rates; overhead rates; costs; general overheads are all assessment of costs to establish if the costs (or escalation of those costs) claimed by the industry are comparable and averaged. Surely, "value for money" is something different. It is respectfully submitted that, inter alia, value for money has to be about the product (elasticity of supply and demand for that product and the quality of it etc.) and the business risk taken by the industry supplier to manufacture and supply niche goods. To take a very basic example, if you were to run a marathon and if at the end you had to pay £1 for a bottle of water that had to be shipped to your location then you might think the £1 is value for money, however if you were sat in an office with water fountains, paying £1 for a bottle of water from the canteen may not be seen as value for money. So although it is accepted that the production, delivery and other costs are part of the value for money consideration, elasticity of supply and demand are market forces that should also be considered.

Question 2. Which in-depth studies do you consider the most pressing and should be prioritised in the next two years?

Please add comments:

The in-depth analytical work will assist in creating a baseline, so this should be done first.

Question 3. Do you have any suggestions for additional studies? How would you prioritise them?

Yes No

Please add comments to support your answer:

Elasticity of supply and demand;
Business risk factors to supply niche products.

Programme of Value for Money Studies

Consultation Response Form

Question 4. Would your organisation be interested in cooperating with the SSRO to develop any studies? If so, what topic(s) would you like to cover and how would you suggest we work together?

Yes No

Please add comments to support your answer:

Amendments to Contracts;
And Elasticity of supply and demand if this is to be done.

Question 5. Please add any additional comments below, stating the paragraph and page numbers in the consultation document which your comments refer to.

A base line definition for "value of money" would be useful.

Programme of Value for Money Studies

Consultation Response Form

Your details

Name:

Martin Seasman

Organisation:

Polaris Consulting Ltd

Position:

Principal Consultant

Consultation questions

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Yes

No

Programme of Value for Money Studies

Consultation Response Form

Value for money programme

Question 1. Do you agree that the proposed topics would be useful?

Yes No

Please add comments to support your answer:

Overall - yes. There is a definite need for pan-industry analysis in order to provide an evidence base against which MOD (and OGDs) can challenge supplier costs. The SSRO is uniquely well placed to lead this work. Some of the proposed studies are likely to be very useful (see Q2) whilst others may find it hard to produce meaningful information in isolation. E.g. Overhead Rates, whilst important, are often deceptive; they will appear low for a company with a large direct labour pool to absorb their overhead - even if this large labour pool is excessive and inefficient.

Question 2. Which in-depth studies do you consider the most pressing and should be prioritised in the next two years?

Please add comments:

1. **Cost of Back Office:** Comparative data here would be a powerful tool in challenging company overhead rates. It may be useful to seek to identify areas where MOD-specific requirements (e.g. security) are genuine cost drivers.
2. **Pay Rates:** This needs to look at total benefit packages, not just pay. Particular emphasis should be placed on Executive Pay and incentive pay (especially examining whether the latter rewards behaviours that are good for the customer or the converse).
3. **Inflation Rates:** Pan-industry transparency and benchmarking would be helpful.

Question 3. Do you have any suggestions for additional studies? How would you prioritise them?

Yes No

Please add comments to support your answer:

1. **Effectiveness of Incentives:** Many contracts are let with some form of incentives (even if this is just Firm price or TCIF) but anecdotal evidence is that many schemes drive adverse behaviours. A definitive study could help to spread good practice.
2. **Productivity and Efficiency:** Examining cost provides only part of the picture; a company offering VFM should operate efficiently, regardless of the product produced. A study could consider: (a) Evidence of a company's own processes and commitment to continuous improvement; (b) Metrics on productivity, efficiency and rework; (c) "On-the-ground" review of company operations for waste and opportunities.

I would prioritise these below Q2 responses but above other proposed studies.

Programme of Value for Money Studies

Consultation Response Form

Question 4. Would your organisation be interested in cooperating with the SSRO to develop any studies? If so, what topic(s) would you like to cover and how would you suggest we work together?

Yes

No

Please add comments to support your answer:

Yes. Polaris specialise in cost investigation and analysis, including identification of improvement opportunities. We have a strong history in the Defence sector and are familiar with many of its key suppliers. We would be happy to support the SSRO in carrying out any of the studies mentioned above or in the consultation document. We are part of a wide range of Government Framework Contracts, including FATS, which provide potential contracting routes. We would also be happy to share our experience and advice as the SSRO develops its programme of analytical studies.

Question 5. Please add any additional comments below, stating the paragraph and page numbers in the consultation document which your comments refer to.

Programme of Value for Money Studies

Consultation Response Form

Your details

Name:

Terry Hersey

Organisation:

Metasums Ltd

Position:

Director

Consultation questions

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Yes

No

Programme of Value for Money Studies

Consultation Response Form

Value for money programme

Question 1. Do you agree that the proposed topics would be useful?

Yes No

Please add comments to support your answer:

I do not believe that the schedule of work proposed by the SSRO is capable of providing VfM for either MoD or contractors undertaking qualifying defence contracts.
I believe that the tasks proposed at 3 through 7 falls outside the scope of the Act. MoD during continued consultation stated that good value for money would be obtained through SSRO exercising mechanisms contained within section 35 through 37 of the Act and not by superficial use of comparisons
Sufficient expertise within MOD and contractors, supported by ONS and BoE, to adequately address these matters based upon the facts and circumstances available at the date of agreement. Where the dispute was referred to the SSRO the parties will provide evidence as appropriate. It is, by the way, also unclear as to what SSRO means by "How inflation is 'accounted' for ...".
MoD and contractors already have access to information available in the public domain. Pay rates and increases need to be considered against facts and circumstances at the time. Looking at industrial averages will not provide a basis for the VfM evaluation.

Question 2. Which in-depth studies do you consider the most pressing and should be prioritised in the next two years?

Please add comments:

The SSRO should prioritise during the next two years preparing and consulting over proposed changes to the regulations and statutory guidance to improve the same. The SSRO needs to engage with industry and MoD, in an open non-threatening way, to understand where changes are required and why they are sought. SSRO needs to spend the next two years listening to MoD and contractors e.g SSROs extending of scope of the recent reference beyond that requested by the parties makes it less likely that SSRO will be asked to engage again.

Question 3. Do you have any suggestions for additional studies? How would you prioritise them?

Yes No

Please add comments to support your answer:

See answer to question two above

Programme of Value for Money Studies

Consultation Response Form

Question 4. Would your organisation be interested in cooperating with the SSRO to develop any studies? If so, what topic(s) would you like to cover and how would you suggest we work together?

Yes

No

Please add comments to support your answer:

I remain very interested to cooperate with the SSRO in getting the Act, regulations and statutory guidance to more effectively deliver the aims of the parties and allow contracts to be placed without unnecessary delay or unnecessary uncertainty.

Question 5. Please add any additional comments below, stating the paragraph and page numbers in the consultation document which your comments refer to.

2.1 VfM is the consequence of outputs as a function of inputs and as such I do not believe the SSRO has the neither tools nor insight to be able to make effective comments yet alone identify the potential savings.
2.2/3 In addition to the comments above it should be noted that for the majority of companies undertaking qualifying defence contracts (or other MoD single source contracts) that these represent a small proportion of their workload.
4.1 The section reads as if SSRO will use this analysis to assess cost reasonableness in any reference 'allows the MoD to use the data to negotiate and manage contracts more closely in accordance with the DRA'. Any suggestion of a bright line test undermines the status and effectiveness of the SSRO.
8. Interviews may be difficult if the outcome is seen as threatening or lacking in sufficient rigour. The SSRO's proposal may indicate to the reader that hubris is an issue within the organisation.

Programme of Value for Money Studies

Consultation Response Form

Your details

Name:

Ian Lindsay

Organisation:

Thales UK Ltd

Position:

Commercial Director

Consultation questions

When answering the consultation questions, it would be very helpful if you could support your responses with additional explanation and detail, particularly on areas where you disagree. This will help us to understand the basis for your answer and inform our decisions on the programme of value for money studies. As a minimum, please include the paragraph number your comment refers to.

Please do not feel that you need to respond to all of the consultation questions set out in the document: we welcome brief or partial responses addressing only those issues where you wish to put forward a view.

In the interests of transparency, it is our intention to publish responses to this consultation on the SSRO website upon completion of the consultation. Please indicate whether or not you consent to publication of your response by ticking one of the boxes below.

Please note, if you do not consent to publication, we will treat your response as confidential to the extent of any disclosure that is required by law. In the event we are required by law to make a disclosure of your consultation response, to the extent we are legally permitted to do so, we will give you as much notice as possible prior to such a disclosure and will take into account all reasonable requests made by you in relation to the content of such a disclosure.

Yes

No

Programme of Value for Money Studies

Consultation Response Form

Value for money programme

Question 1. Do you agree that the proposed topics would be useful?

Yes No

Please add comments to support your answer:

Thales believes some of the studies may be useful, such as inflation guidance, amendments to contracts and pricing methods, however, the proposed objectives and benefits of each study must be clearly defined and shared with industry and MoD in order to elicit acceptance and perhaps prioritise effort.

- For the projects relating to labour and overheads it is imperative that the SSRO understands the rationale underpinning the QMACS submitted by individual companies in the first instance as comparability of different costing structures without this information would be ineffective.
- The cost of facility maintenance and back office support is not in itself a comparable measure of any significance. Each of these costs, even if taken as a proportion of total costs of a company, needs to be investigated in terms of value add. Looking at costs in isolation, in reality, will give no credible information.

Question 2. Which in-depth studies do you consider the most pressing and should be prioritised in the next two years?

Please add comments:

Once the precise objective and proposed benefit of each study is understood overhead rates is probably the most pressing issue as clarification of the "allowable costs" which form part of any company overhead structure is likely to be the topic of greatest debate.

Using the same rationale as above "Pricing Methods", "Amendments to Contracts" and "Inflation", in order of priority, would probably be of most benefit.

Question 3. Do you have any suggestions for additional studies? How would you prioritise them?

Yes No

Please add comments to support your answer:

In general a more mature and even-handed approach is required when recognising that, with very few exceptions, costs are incurred to maximise both the efficiency and profitability of a company and are usually subject to internal management review and scrutiny before they are incurred. Working together to reduce costs at source rather than believing 'disallowing costs means costs cease to exist' would seem to be the only sensible way forward. With this in mind suggestions for future studies may be to understand:

1. Why HMRC allow necessary business costs while at the same time some are not considered 'appropriate' for inclusion in the MOD pricing rates e.g. elements of redundancy, sales and marketing etc. Surely all Government departments should be abiding by a similar set of rules?
2. The impact of Non MOD work on the overall costing rates of companies. Companies that operate in civil markets both in the UK and overseas generate work that helps lower the overall rate per hour enjoyed by MoD - why do the guidelines seek to disallow elements of the costs required to generate this throughput?
3. The benefits of being part of a global group with a non UK Parent - expertise and market access across the globe benefits not only the MoD but also UK PLC.
4. The cost of single source contract compliance - reporting etc.
5. The real cost of contract award delays and the impact on rates/price.
6. The impact of the R&T tax credit. It seems current proposals are at odds with encouraging technological advancement and with HMRC initiatives.

Programme of Value for Money Studies

Consultation Response Form

Question 4. Would your organisation be interested in cooperating with the SSRO to develop any studies? If so, what topic(s) would you like to cover and how would you suggest we work together?

Yes

No

Please add comments to support your answer:

It is immensely important to involve a selection of disparate companies when trying to understand the impact of potential changes to an extant system. In that respect we would welcome participation especially in any of the proposed studies concerning "Pricing Methods", "Amendments to Contracts" or "Inflation" but more importantly in any future studies relating to the impact of non MOD work on the overall costing rates of companies.

We believe that, at least as a starting point, workshops or roundtables are reasonable methods of ensuring participation of and communication with interested parties.

Question 5. Please add any additional comments below, stating the paragraph and page numbers in the consultation document which your comments refer to.

Page 5, paragraph 7.1

Information required to ensure any studies or research result in meaningful output may not necessarily reside in the public domain and whilst transparency with the SSRO is obviously required some companies may be unwilling to share information with competitors. As a consequence individual companies may question the results of any studies or research where data used is not freely available for scrutiny.

Programme of Value for Money Studies

Consultation Response Form

Your details

Name:

David Scillitoe

Organisation:

Yusani Limited

Position:

Director

Consultation questions

When answering the consultation questions, it would be very helpful if you could support your responses with additional explanation and detail, particularly on areas where you disagree. This will help us to understand the basis for your answer and inform our decisions on the programme of value for money studies. As a minimum, please include the paragraph number your comment refers to.

Please do not feel that you need to respond to all of the consultation questions set out in the document: we welcome brief or partial responses addressing only those issues where you wish to put forward a view.

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Yes

No

Programme of Value for Money Studies

Consultation Response Form

Value for money programme

Question 1. Do you agree that the proposed topics would be useful?

Yes No

Please add comments to support your answer:

Most of the topics will not provide insights into Value for Money for MoD in assessing the contract price for the discharge of contract requirements.

Some topics are ultra vires under the Act.

Question 2. Which in-depth studies do you consider the most pressing and should be prioritised in the next two years?

Please add comments:

I suggest that in-depth studies be put on hold for some three years, unless MoD or industry, or both, specifically requests the SSRO to undertake a piece of work within its scope under the Act. In the meantime, the SSRO should be gaining experience, gathering data and information to enable it to better consider what studies may be appropriate in the future and to enable that study.

Paragraph 8.2 refers to discussion papers on topics, which will be welcome - the SSRO needs to get involved in more discussion with practitioners and experts. Furthermore, the SSRO should be considering in more detail, consulting as necessary, the areas of contention and omission that both MoD and Industry have raised in relation to the SSCs.

In addition, the SSRO needs to start consulting on any changes necessary to the Act and the Regulations - this will flush out a range of practical issues on which it will need to consult.

Question 3. Do you have any suggestions for additional studies? How would you prioritise them?

Yes No

Please add comments to support your answer:

See response to Question 2.

Programme of Value for Money Studies

Consultation Response Form

Question 4. Would your organisation be interested in cooperating with the SSRO to develop any studies? If so, what topic(s) would you like to cover and how would you suggest we work together?

Yes

No

Please add comments to support your answer:

There are a few independent experts in the Industry, who are not affiliated to any particular defence company, whose advice and recommendations to SSRO would not create a conflict of interest. SSRO should consult those experts as part of the broad consultation on matters to be considered in order to increase the SSRO's knowledge base and experience.

Face to face discussions will encourage a more open dialogue.

This company would be prepared to participate in those discussions.

Question 5. Please add any additional comments below, stating the paragraph and page numbers in the consultation document which your comments refer to.

In the Act this Value for Money (VfM) principle is balanced with the supplier being paid a fair and reasonable price. In the scheme of things, the pricing of work is done by the parties to the contract, not by the SSRO. It is MoD (as the buyer) that will assess VfM for the Department.

VfM should be assessed at the pricing level (and that is the purpose of the pricing formula), not on individual elements of the price: as some elements may be higher than a "norm" and other elements lower than the "norm" for very good and justifiable reasons. It is the overall outcome that should be judged on VfM criteria.

The SSRO can assist the parties in providing tools and general standards that contribute to a fair and reasonable price that MoD will judge as VfM or not, but the SSRO shouldn't go further than that. The SSRO should avoid developing strict rules or "bright-line tests", such as benchmarks and other strict criteria, as bright-line tests are overly-simplistic and can lead to harsh and unjust results; there should be an approach that uses balancing tests, where a result depends on weighing several relevant factors: many single-source providers have unique capabilities from their capacity and capital, this makes benchmarking/comparison an exercise with little meaning.