



SSRO

Single Source
Regulations Office

SSRO Corporate Plan: 2015-2018

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Foreword

The Defence Reform Act 2014 established the Single Source Regulations Office (SSRO) as an independent regulator of the UK government's procurement of 'single source' military equipment and services.

Single source procurement is used, for example, where there is only a single contractor able to deliver the requirements, where there are strong reasons for maintaining national capability, or for reasons of national security. Approximately £8.6 billion was spent by the Ministry of Defence (MOD) on such contracts in 2013/14, which by their nature are non-competitive. The proposal to reform the single source procurement regime and establish a regulator received cross-party support in Parliament.

“At its core is the principle that industry gets a fair profit in exchange for providing the MOD with transparency on costs and the protections we need to ensure value for money.”

**Secretary of State, parliamentary debate, Hansard,
16 July 2013**

<http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm130716/debtext/130716-0002.htm#13071683000001>

The Defence Reform Act sets two aims for the SSRO – to ensure that good value for money is obtained for the UK taxpayer in MOD expenditure on qualifying defence contracts (QDCs), and that single source suppliers are paid a fair and reasonable price under those contracts.

These two aims are of equal importance. Taxpayers' money is valuable, and the SSRO will seek to help improve the value for such money spent on defence equipment and services. Having adopted the Review Board for Government Contracts' calculation of the contract profit rate for 2015, we recommended to the Secretary of State that the rate paid to contractors in single source defence contracts should be reduced. We have also introduced new tight guidance on what costs are 'allowable' under such contracts.

We will continue over the next three years to help the MOD secure better value for money by for example analysing cost information to highlight where a supplier's spending is consistently higher on certain costs than others. We will be able to analyse the information we have to form a view of potential savings.

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

At the same time, the SSRO is fully aware of the valuable contribution single source contractors make to the UK economy and our security. The reforms must provide a fair and reasonable return for some of the UK's most important businesses. While we are asking contractors to be more transparent, in return we will be fair and open, listen to all, and remain impartial.

“The new single-source framework is essentially a deal between suppliers and the Government. Suppliers get a fair and reasonable price and we get the protections we need to ensure value for money. This is a good deal for both parties. We have a duty to ensure taxpayer value for money and an efficient and thriving defence sector that gets a fair price, which is good for defence as a whole. It means that our Armed Forces get the equipment and support they need and the wider economy benefits from an efficient defence sector that can drive innovation and exports.”

Secretary of State, parliamentary debate, Hansard,
16 July 2013

The SSRO will seek to champion the new regulatory framework efficiently and effectively, operating independently, transparently and with professionalism.

We can reflect on the significant progress since the Single Source Contract Regulations came into force in December 2014. As a new organisation with limited resources, we have achieved much. With few staff, many on part time secondment, we have published guidance on allowable costs; determining penalty amounts; the contract profit rate; adjustments to the baseline profit rate; a suite of reporting templates and user guides; and guidance on our internal procedures for considering referrals. We have also put in place all necessary internal governance procedures and hosted our first Senior Stakeholder Forum and industry working group events, to ensure regular engagement with contractors and government.

As we complete our recruitment and approach full establishment, we have much to deliver over the next three years, during which the first QDCs will be signed. We will meet our objectives by collecting and analysing data; compiling and publishing relevant guidance; developing a defined pricing structure; establishing a secure information system for the data we will receive; considering the determinations and opinions referred to us; conducting a fundamental review of the principles and methodologies we will use to calculate the baseline profit rate; fulfilling our other statutory obligations, including analysis for the Secretary of State; and continuing our comprehensive engagement programme with industry and government in order to ensure that the SSRO remains a credible and respected organisation.

The SSRO's work will make a difference, and this Corporate Plan sets out how we will do so. As the expert guardian and adjudicator of the single source procurement regime, we will set our sights wide and look across the public sector, to work with other regulators and understand the lessons of effective regulation. Through our work we will demonstrate that single source is a credible method of procurement, where circumstances require it and where appropriate oversight is in place.

We look forward to the challenges and opportunities ahead.



Jeremy Newman
Chair



Marcine Waterman
Chief Executive

Section 1: Aims and values

The aims set for the Single Source Regulations Office are outlined in the Defence Reform Act 2014 and the Framework Document¹ agreed between the SSRO and our sponsoring department, the MOD. The aims of the SSRO are to ensure that:

- 1. Good value for money 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 will strive to achieve the aims set out in the Defence Reform Act while adhering to our values at all times.

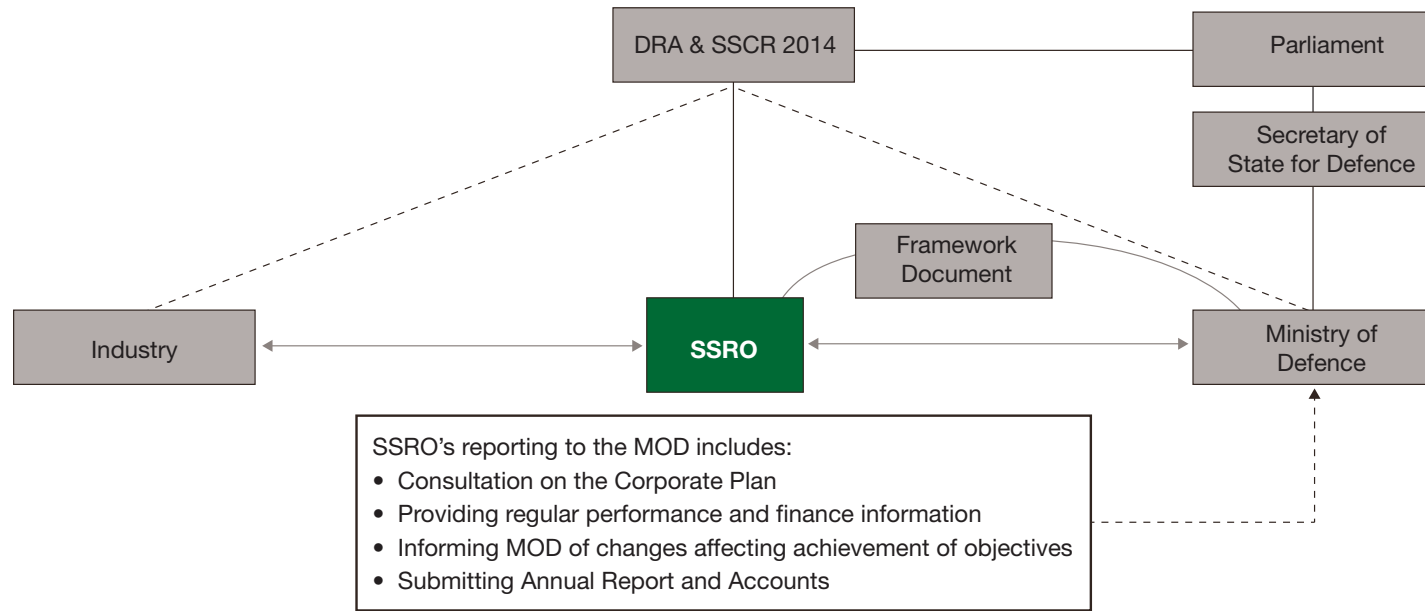
These are to be:

- **Independent**
- **Transparent**
- **Professional**

Independent: The SSRO will be independent of the MOD and defence contractors. That independence has been enshrined in our Framework Document, in the strength and composition of our Board, and the widespread experience of our non-executive and independent panel members, and we will be mindful of it in all our work. The SSRO occupies an important space between government and industry. It will be impartial and fair to both; it will listen to reasoned arguments and consider all relevant evidence. All parties understand the paramount importance of our independence.

¹ <https://www.gov.uk/government/publications/framework-document-for-the-single-source-regulations-office>

Figure 1: The SSRO and MOD



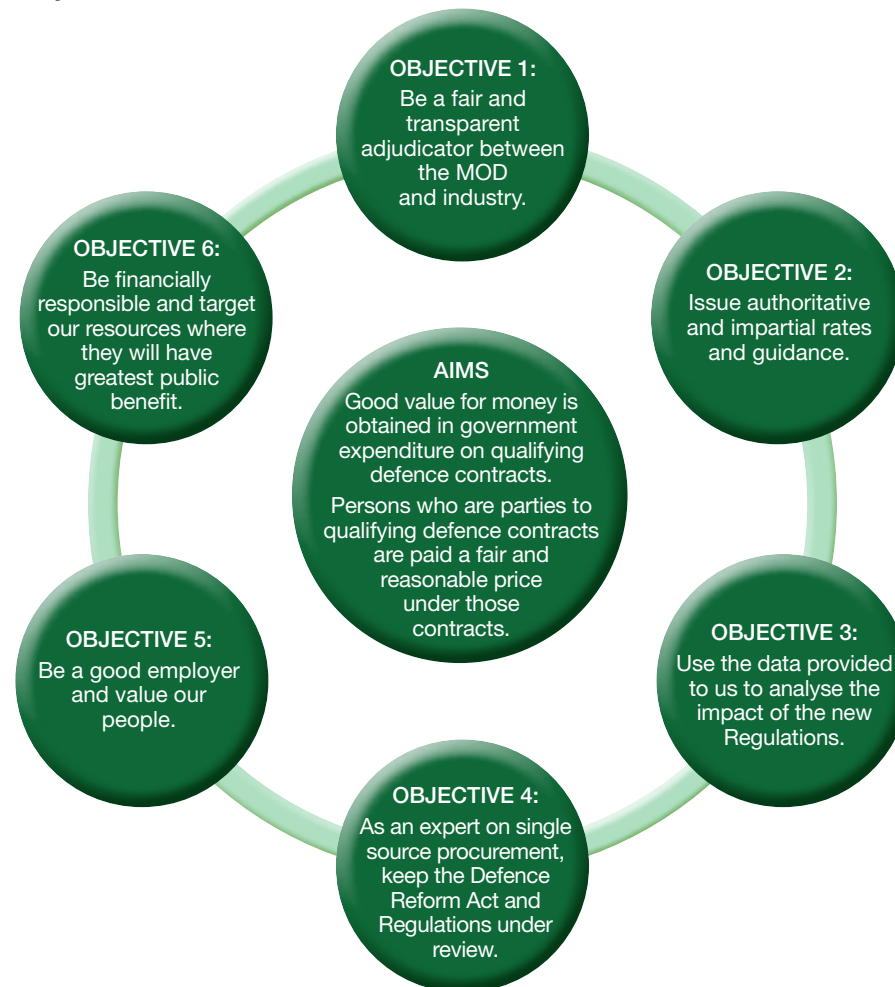
Transparent: The SSRO will operate openly and transparently, and engage wherever possible. We will meet regularly with industry and the government; hold open consultations wherever we can; publish newsletters that inform our stakeholders of our work; establish in-depth detailed discussions at the working level; publish all reports, opinions and determinations; publish Board agendas and minutes, and registers of interests and gifts and hospitality. We intend to share our learning on single source procurement across government as well as with academics and think tanks. We will also be transparent when developing our reporting and analysis functions, working with all parties to ensure that all views are represented, so as to remove the need for future costly duplication of systems. We will ensure the confidentiality of sensitive commercial and financial information. This principle is

of vital importance and will apply throughout this document, even where not specifically mentioned.

Professional: The success of the SSRO depends entirely on the quality of its staff. We have recruited a team of high calibre individuals with relevant skills and experience across a range of specialisms. The SSRO will deliver its work with an initial staff of about 30 people. With a budget in 2015/16 of £4,707,000, the SSRO will need to operate to the highest standards of professionalism within a unique and sensitive environment. All of our staff are acutely aware of the sensitive nature of the information we hold and the work we undertake. We treat information and data security as a top priority and we maintain security controls at a high level in the office and across our technology infrastructure.

Section 2: Strategic objectives and key performance indicators

The SSRO has 6 strategic objectives:



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

The Defence Reform Act 2014 confers on the SSRO a duty to give an opinion or make a determination on matters specified in the Single Source Contract Regulations, where such matters are referred to the SSRO by the Secretary of State, contractors or subcontractors.

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

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

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

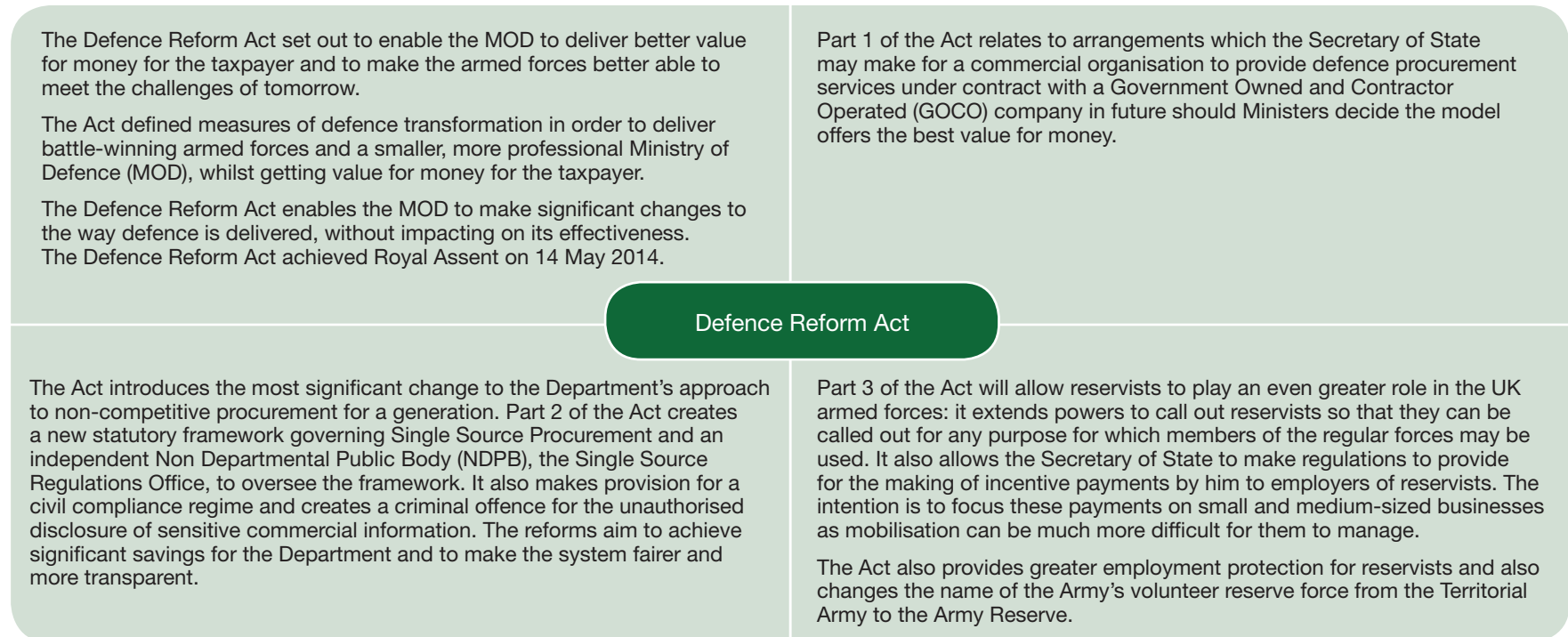
In giving an opinion or making a determination, the SSRO must have regard to:

- Regulations or statutory guidance under Part 2 of the Act;
- the extent to which relevant guidance has been followed and any justifications for not following the guidance;
- the extent to which responsibilities under Part 2 of the Act and under the Regulations have been met;
- previous decisions of the SSRO; and
- representations made by the parties to a QDC or QSC.

What we will deliver

The SSRO will promote positive change within the UK defence sector by ensuring that disagreements between the MOD, contractors and subcontractors are resolved in accordance with the values and principles of the Defence Reform Act 2014. In order to make sustainable and lasting changes to single source procurement, the SSRO will establish a fair and consistent adjudication process which is clearly understood by parties, consistent with the values and principles of the Act and Regulations, and which ensures that all opinions and determinations are based on relevant facts and evidence. Our process will be proportionate and focused, with the SSRO considering a referral only when it is persuaded that an opinion or determination is both necessary and appropriate.

Figure 2: Overview of the Defence Reform Act



Source: Collection, Defence Reform Act, <https://www.gov.uk/government/collections/defence-reform-act-2014>

Transparency will be integral to the SSRO's adjudication process. We will keep parties informed of the SSRO's provisional thinking and proposed next steps at all stages of the process and will inform parties of the reasons behind the decisions we make. We will share with stakeholders the outcomes of previous referrals, allowing them to develop a greater understanding of the way we work and the likely outcome of referrals submitted to us.

SSRO determinations will be based on appropriate research and analysis. Determinations are legally binding and must be adhered to by all parties.

SSRO opinions will be robust and credible, and also based on the relevant evidence.

How we will deliver it

As a means of delivering a fair and transparent adjudication process the SSRO has committed to the following:

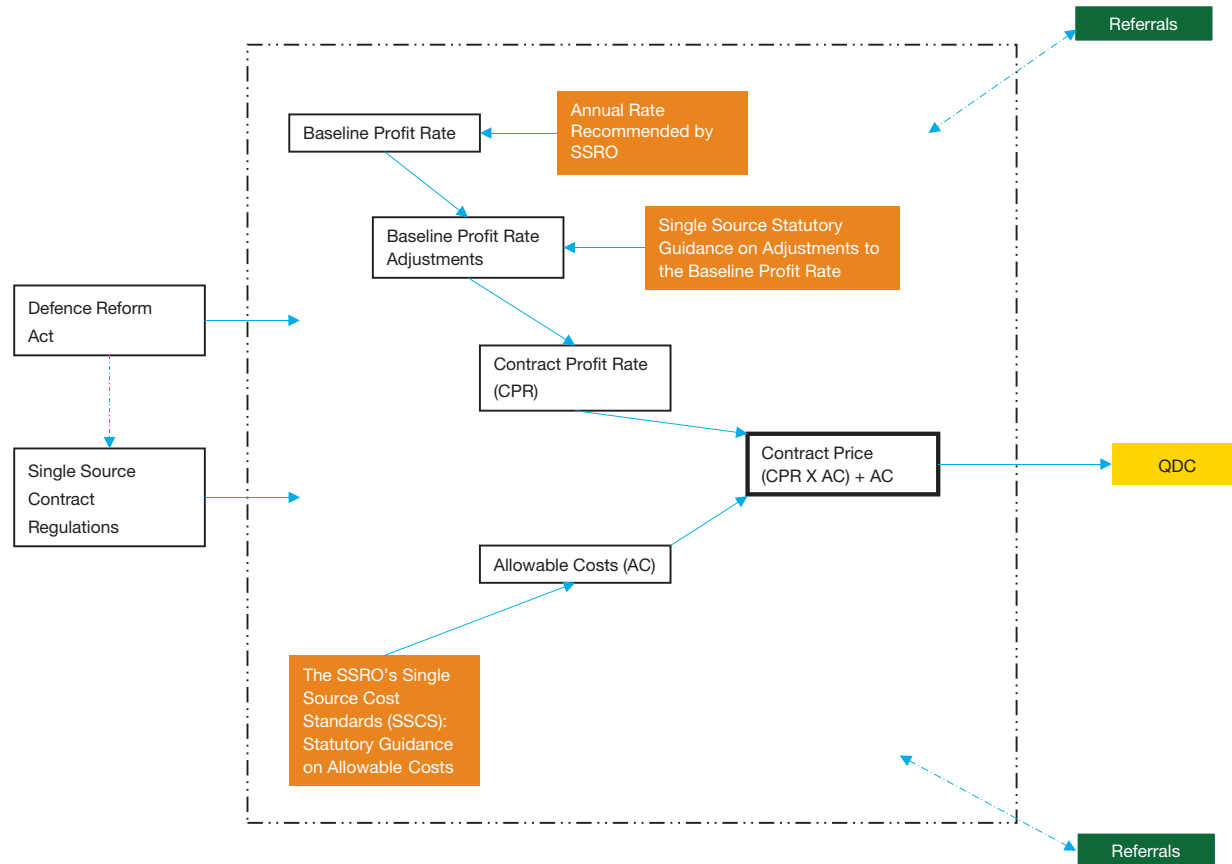
- We will be proportionate and focused, opening formal investigations only when it is appropriate and necessary to do so, and where other methods of resolution have been explored.
- We will publish and review detailed guidance on our referrals process. Our guidance will use plain English and contain summaries and overviews of our process, as well as references to opinions and determinations from the Act and Regulations. This guidance will provide all potential parties with an understanding of our adjudication process, so that no party to an adjudication procedure will find themselves at a disadvantage.
- Our guidance will set out a different process for opinions and determinations, proportionate to the nature of each. The process for opinions will be shorter, faster and less formal than for determinations.
- We will follow the referral procedure laid out in our guidance. We will however reserve the right to modify the procedures set out in the guidance in appropriate circumstances, including extending timetables where more information or evidence is required.
- A referral for determination requires evidence of previous negotiations, a description of the matter and proposed possible solutions. We will clarify the matter by meeting with parties in person at the Enquiry Phase Meeting and establish whether intervention is needed by scrutinising the matter at a Referral Review Meeting. These steps will ensure our adjudication process avoids placing undue burdens on involved parties.
- We will analyse and review the facts and evidence on which our determinations are based and will bring in external experts when they are required to contribute to the analysis. By doing so we will ensure our decisions are fair, evidence based and able to withstand scrutiny.
- The SSRO will make known the outcomes of the referrals it has handled. Decisions and the reasons behind them will be published on the SSRO website (without any confidential information) and in our annual Compliance Report. By doing so we will promote a greater understanding of the Act and Regulations, which will in turn encourage greater compliance.
- We will circulate referrals, representations and submissions to the other party, so that they may fully understand the issue and, for referrals involving disputes, know the case against them and respond accordingly. In this way we will foster transparency around our adjudication process and provide parties with ample opportunity to challenge the case against them.
- We will meet with parties throughout the formal determination investigation at our 'State of Play' meetings, at which we will inform parties of our provisional views and findings, as well as our proposed next steps.
- We will not issue either a provisional or final determination without providing the reasons why we have reached that conclusion. By doing so we will assure parties that our decisions are made only on the basis of robust evidence and analysis

Key performance indicators

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

Objective 2: Issue authoritative and impartial rates and guidance

Figure 3: Formula of a contract price

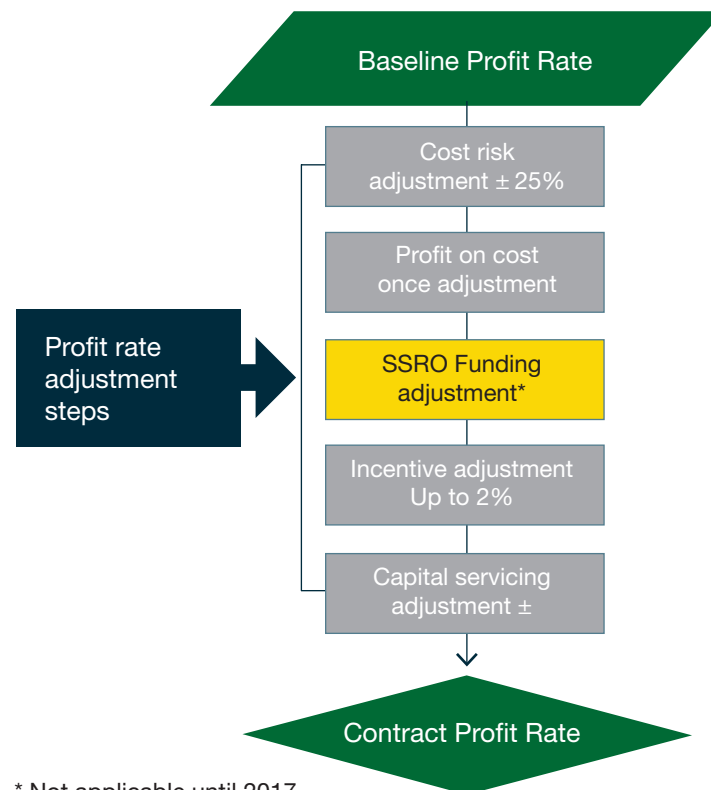


Under the Defence Reform Act 2014, the SSRO is required annually to review the figures used to determine the contract profit rate for pricing single source contracts. It is also required to publish the review and make an annual recommendation to the

Secretary of State for Defence on whether the contract profit rate should be adjusted. The SSRO must recommend the contract profit rate to the SofS by 31 January each year in order for the SofS to issue the rate for the forthcoming year by 15 March.

The contract profit rate is set by the formula illustrated in the flow chart below. The adjustments should be applied in the order shown. The baseline profit rate is common across all single source contracts and, as the flow chart shows, is the starting point for determining the contract profit rate to be applied in the pricing formula.

Figure 4: Process for adjusting baseline profit rate



* Not applicable until 2017

The Act also requires the SSRO to issue guidance for use by the MOD, contractors and subcontractors. The purpose of our guidance is to establish a single point of reference to be used by all stakeholders to establish whether their actions adhere to the Defence Reform Act and Single Source Contract Regulations. Once published, stakeholders have a legal requirement to have regard to guidance issued by SSRO. The areas on which the SSRO publishes guidance are as follows:

- The baseline profit rate and adjustments used to determine the contract profit rate. Details on the principles and methodology behind these steps can be found in our guidance, *Single Source Statutory Guidance on Adjustments to the Baseline Profit Rate*, which is published on our website.
- Determining whether costs are allowable costs. The SSRO’s *Single Source Cost Standards (SSCS): Statutory Guidance on Allowable Costs* provides the principles that contractors and the MOD must have regard to when determining whether costs are ‘allowable’ under QDCs and QSCs. To support this, the Act states that Allowable Costs must be ‘Appropriate, Attributable and Reasonable in the circumstances’. The guidance includes a range of examples and checklists to help users assess if costs meet the criteria specified in the Act.
- Preparing reports. The Act provides for a statutory obligation on qualifying defence contractors and qualifying subcontractors to provide a range of reports to the SSRO and MOD from the time a contract is entered into through to the date it is completed. The SSRO publishes report templates and user guides to provide parties with a simple and standard means of reporting.
- Defined Pricing Structure. Three of the reports published by the SSRO (the contract notification report, interim contract report and the contract completion report) include a requirement for costs to be split by the defined pricing structure (DPS). The DPS is a list of cost categories describing key components of

the deliverables to be provided under a contract. The purpose of the DPS is to allow cost information to be collected, which will enable future analysis, whilst assisting effective contract monitoring without being burdensome.

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

Figure 5: SSRO QDC cycle



What we will deliver

Our reviews will identify rates (profit and capital servicing allowance) that should be adjusted, so that the prices paid under single source contracts better reflect industry's costs in fulfilling them efficiently. At the same time, we will ensure that our recommended rates continue to provide industry with an appropriate reward for risks taken, targets surpassed and innovations made. When recommending changes to the rate, we will always seek to maintain the balance between our dual aims. Rates issued by the SSRO will be authoritative and impartial, calculated according to sound principles and published methodologies while maintaining balance and impartiality between the MOD and industry.

Our work considering the figures used to determine the contract profit rate will be published online and be open to the public. The Secretary of State must have regard to the recommendations of the SSRO when publishing the rates to be used to calculate the contract profit rate and is required to provide reasons for not acting in accordance with the recommendations of the SSRO.

The SSRO aims to achieve compliance with the Act and Regulations by issuing guidance which provides stakeholders with the knowledge needed to achieve compliance. To achieve this aim it is important that our guidance is authoritative and impartial, in that it is accessible and available to all stakeholders and that it is firmly grounded in the Act and Regulations.

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

How we will deliver this objective

- In the first year of this plan, we will conduct a full review of the principles and methodology used by the Review Board for Government Contracts to calculate the baseline profit rate. We will review a number of areas, including the principle of comparability; the exclusion of companies under price regulation; inclusion of companies which are UK based but whose activities are predominately overseas; the treatment of R&D tax credits; and the use of simple rolling averages. We plan to share our approach at the next Senior Forum to be held in September 2015 and to consult with stakeholders during an eight week consultation period from September to November. Updates will be communicated throughout the process and we expect to have completed the review by December 2015. When the review is completed, the SSRO will use its final developed methodology for calculating the baseline profit rate for the life of this plan.
- We will consult on all statutory guidance we issue, providing stakeholders with the opportunity to contribute their views and shape our guidance. Participants include individuals from government bodies, key defence contractors, Members of Parliament, consultancies and other regulatory bodies. Our final guidance will be impartial and authoritative, and will have regard to the interests, concerns and opinions of a broad range of stakeholders.
- We will review our guidance on allowable costs in the first and third year of this plan. The guidance aims to make sure that the prices paid by the government under QDCs truly reflect the appropriate costs for suppliers of delivering appropriate quality products and services. Our statutory guidance is based on the principle that for a cost to be allowable it must be appropriate, attributable to the contract and reasonable in the circumstances.
- We will review our guidance on how the amount of a penalty is to be calculated in the first and third year of this plan. The guidance sets out the factors to which the Secretary of State must have regard when determining the amount of a penalty. Factors include the impact and nature of the contravention, the compliance history of the contractor in question and any steps taken by that contractor to prevent future breaches of compliance.
- The SSRO recognises the significant changes resulting from the introduction of the Act, Regulations and guidance. Therefore, upon referral to the SSRO, penalty amounts may be adjusted to reflect these transitional issues. This transitional arrangement will remain in place for 12 months from 1 April 2015.
- We will review the user guides and report templates we have produced for industry in the first and third year of this plan. The guides set out clearly the reporting requirements for qualifying contracts and the templates will aid industry in complying with the Act and Regulations.
- We will develop the Defined Pricing Structure over the course of the next two years, in line with the Defence Reform Act and Single Source Contract Regulations, and in consultation with industry and the MOD. We will issue our principles that will guide the development and use of the DPS by 30 June 2015.

Key performance indicators

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

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

Under the Defence Reform Act 2014, the SSRO is required to monitor and assess the application and impact of the single source procurement framework. By carrying out this duty effectively, the SSRO will establish clear procedures for measuring compliance with the framework, as well as the extent to which it is resulting in benefits for the MOD and industry.

In our role as a monitor, we are required to keep an up-to-date record of QDCs and QSCs, as well as the duration of these contracts. The SSRO will be informed of new QDCs and QSCs by the MOD, and through the receipt of reports including the Contract Notification Report. Along with the Contract Notification Report the SSRO will receive a copy of all the standard reports that contractors are required to provide under the Single Source Contract Regulations.

The SSRO will know whether reports have been provided on time and if they have been completed in their entirety and contain the required information. The SSRO will also keep a record of any compliance or penalty notices issued by the MOD and will act as the appeals body for suppliers seeking to dispute these notices.

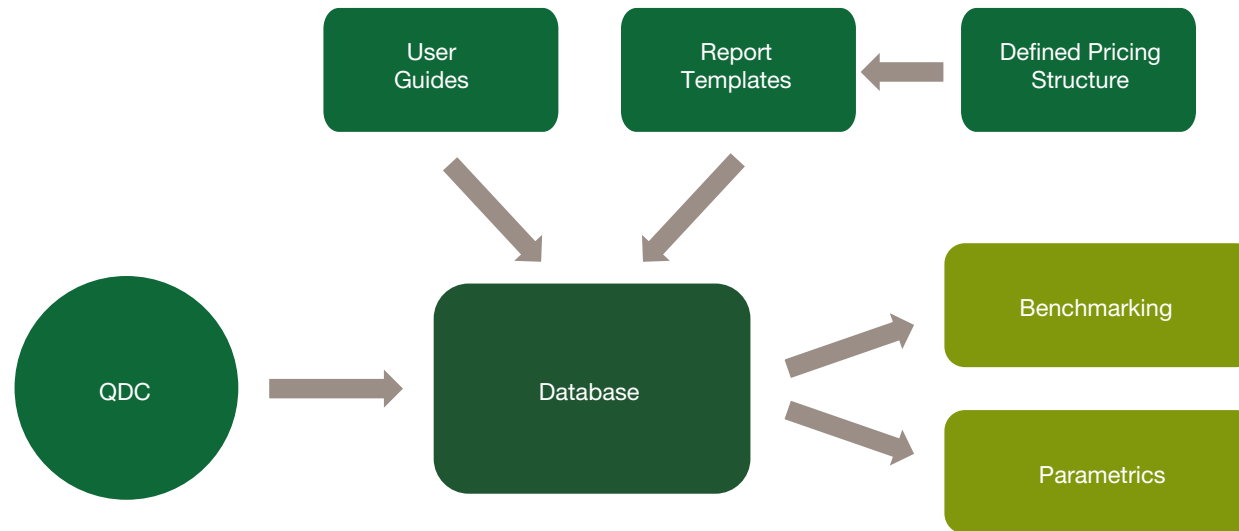
The SSRO will analyse the reports provided to us by industry. The analysis we produce will be based on a range of evidence and will generate comparative management information and defence benchmarks and parametrics. This data can be used by the MOD to work with industry to negotiate and manage contracts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

What we will deliver

The SSRO will deliver a system that collects reliable data on a regular basis and holds the data in a secure database. SSRO research using this data will deliver benefits to industry by highlighting areas in which efficiency may be improved. For example, over time our supplier portfolio analysis will identify if certain suppliers consistently spend more than others for comparable goods or services.

We will provide independent insights for the Secretary of State, enabling the MOD to estimate prices, negotiate contracts and manage projects in a more informed and effective manner. The data we collect and analyse will allow us to deliver a framework in which progress towards the vision we have for single source procurement is clearly measured.

Figure 6: SSRO report submission



The system we deliver will record and scrutinise the quality and punctuality of reports provided by industry. All instances of compliance and noncompliance with the statutory framework will be recorded and shared with a broad range of stakeholders. In this way, our framework will ensure that the successes of the MOD and industry in meeting their regulatory requirements are recognised, while negative compliance trends are identified and addressed in a timely manner.

By continually recording and analysing the impact of the Regulations the SSRO will encourage widespread compliance with the new framework, better inform decision-making by the MOD and promote more sustainable business models among industry.

How we will deliver this objective

- We will maintain an up-to-date register of all QDCs and QSCs and their duration. Our register will provide us with a comprehensive view of the single source procurement landscape.
- We will establish a secure database for the collection, processing and storage of contract data.
- We will manage the database efficiently, monitoring the quality, timeliness and accuracy of the reports we receive. As a result, we will acquire a thorough knowledge of the extent to which parties are meeting their obligations and requirements under the legislation.

- We will embed security considerations into the design of the SSRO, its policies and its physical and technical infrastructure. Security has been a major consideration in the initial organisational design of the SSRO's systems, and external stakeholder needs have been fully considered. Policies, processes and procedures around information, physical and personnel security are in place in line with the government's security policy framework. This includes a programme of training for all staff and non-executives. Information Assurance assessment will be undertaken and accreditation sought where necessary and appropriate, with outcomes published on our website.
- We will maintain a database of compliance and penalty notices issued by the Secretary of State. We will also record any notice related referrals made to us by qualifying defence contractors or qualifying subcontractors.
- We will undertake analysis providing useful comparative management information, under Section 36 of the Act. Such analysis might highlight for example where one supplier is spending consistently more on certain costs than others and how overheads are allocated across a supplier's portfolio of contracts.
- We will undertake extensive analysis as a means of producing benchmarks and parametrics.
- We will provide detailed analysis for the Secretary of State.
- We will publish an annual Compliance Report. This report will illustrate clearly the extent to which parties have adhered to the Act and Regulations. Our annual report will provide stakeholders with a detailed understanding of which parties have taken meaningful steps towards implementing the provisions of the legislation and which parties have failed to act in accordance with their regulatory requirements.

Key performance indicators

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

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

The Defence Reform Act 2014 requires the Secretary of State for Defence to review Part 2 of the Act and the Single Source Contract Regulations. The initial review must be completed no later than three years after the introduction of the current Regulations and every five years thereafter. The Act also requires the SSRO to keep the Act and the Regulations under review, and for the Secretary of State to have regard to the findings and recommendations of the SSRO when deciding whether to alter the existing statutory framework. The SSRO must publish its recommendations to the Secretary of State.

What we will deliver

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

The SSRO will deliver reviews that build upon the data we have gathered and the analysis produced between review periods. Where necessary, our reviews will recommend legislative change, to reduce unwarranted burdens, streamline regulatory processes, and provide us with the tools and powers necessary to meet our obligations more effectively. We will also work with other regulators and seek to understand lessons from single source procurement in other sectors. Through our work we will demonstrate that single source can be a credible method of procurement, where circumstances require it and where appropriate oversight is in place.

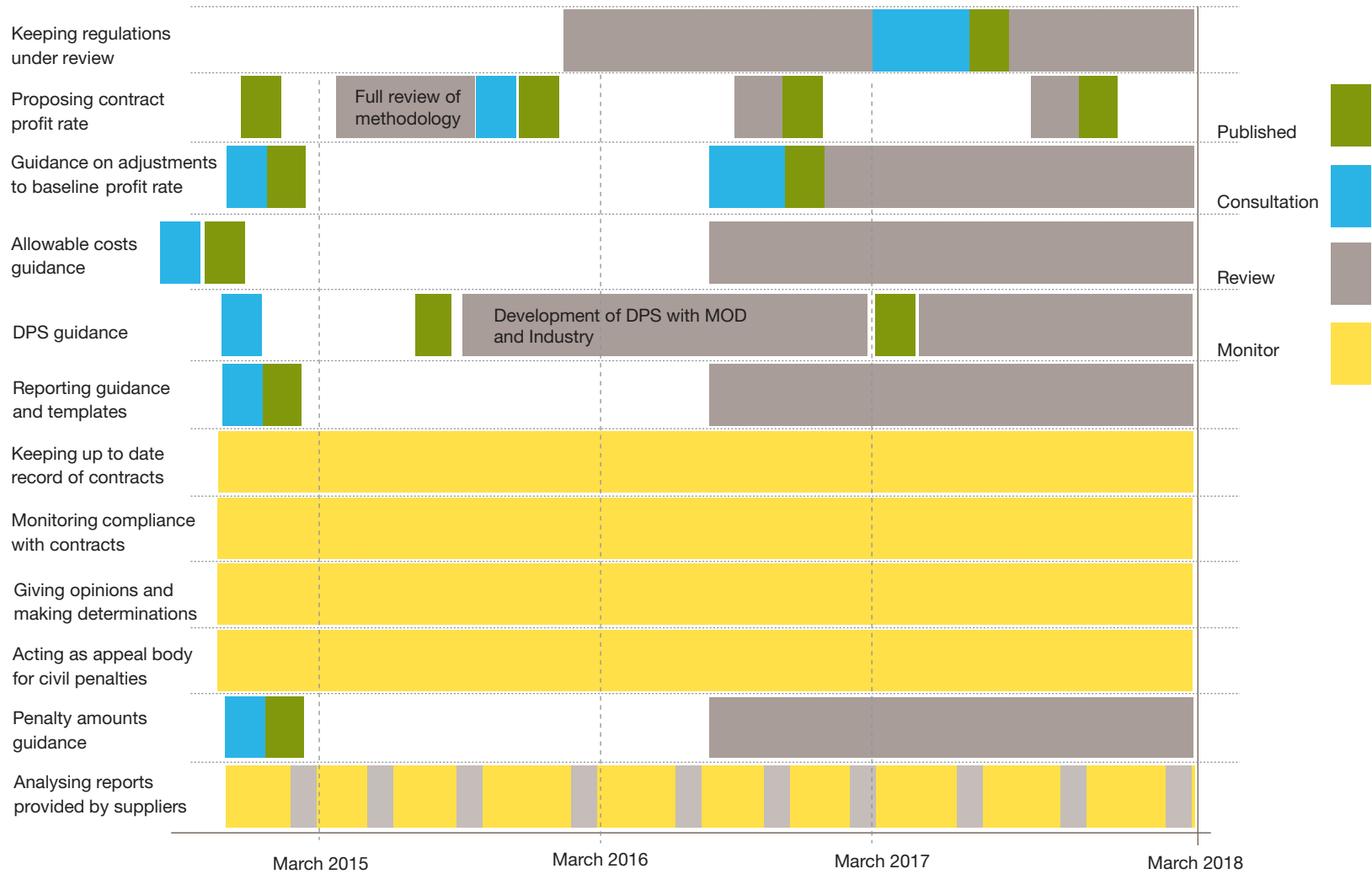
How we will achieve this objective

- We will undertake high quality analysis of the evidence and information we receive between reviews, looking for positive and negative trends in the way the framework is operating and the results it is driving.
- We will consult with primary users on the recommendations we put forward in our reviews. Consultations will complement the information we gain from our own research by allowing stakeholders to express their interests, opinions and concerns regarding the legislation and the ways we operate.
- We will analyse the powers that the Act gives us and the circumstances in which it might be appropriate for these powers to be curtailed, enhanced and expanded. Our reviews will illustrate clearly to policy makers the tools and powers necessary for the SSRO to forward its aims in the most effective and independent manner.
- We will publish draft recommendations in a publicly available document and conduct a consultation for a minimum of two months. We will publish our final recommendations to the Secretary of State at least six months in advance of his duty to review the legislation.
- We will assess the usefulness of data currently provided by industry and will consider whether more or less detailed data sets would be beneficial.
- We will apply to join the UK Regulators Network, and seek to explore regulatory best practice across a broad range of sectors while communicating the lessons we have learned with other regulators.

Key performance indicators

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

Figure 7: Timeline of statutory functions



Objective 5: Be a good employer and value our people

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

Our staff need to be motivated and well trained. As a newly created regulator recruiting professionals from both the public and private sector, the SSRO recognises the need for ongoing training and development in order for the highest standards of work to be maintained.

What we will deliver

The SSRO will deliver its work with a complement of around 30 people during 2015/16.

Recognising the importance of clear leadership and strong management the Board has agreed to early action on the three senior roles, the Chief Executive, the Director of Regulation and the Director of Corporate Resources. The Chief Executive role continues to be filled on an interim basis providing continuity from the transitional period through to full operation. A permanent appointment is expected to be made by autumn 2015. The Director

of Regulation will be in post from July 2015 and the Director of Corporate Resources from April 2015.

The SSRO is committed to supporting the continuing professional development requirements of staff. An appropriate cost effective formal training and development strategy will be implemented.

A performance management programme will be developed to ensure that employees are encouraged to maintain and develop their professional competencies and are supported to develop and succeed in their roles.

How we will achieve this objective

- A permanent Chief Executive appointment will be made. This is expected in autumn 2015.
- The SSRO will provide continuing professional development opportunities to staff, as part of an appropriate formal training and development strategy.
- We will develop a performance management system that links our strategic objectives to the individual objectives of all staff.

Key performance indicators

Process	What is being measured	Annual Target
Staff retention	Voluntary resignation of staff is less than 10 per cent	10 per cent
Training spend	Average number of days spent per annum per person on formal training	3 days per annum per person
Employee engagement level	The level of employee engagement with the organisation	At least 50 per cent median positive feedback on employee surveys

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

Our first statutory aim is to ensure that good value for money is obtained for the UK taxpayer in MOD expenditure, and this focus on the importance of taxpayer's money guides how we will run the SSRO. The SSRO is currently funded by grant-in-aid from the MOD, but from 2017 it will be jointly funded by a top slice of profits from industry. As the government and industry will fund us, it is important that we are run efficiently and that all expenditure is justified and results in public benefit.

What we will deliver

Our corporate resources functions will be set up to efficiently support the organisation as it pursues its strategic objectives. Given the scale of the organisation it does not represent good value for money to operate some support services in-house. To ensure resilience and that the required standards of service are maintained, we have outsourced the majority of our back office functions – including IT infrastructure support, HR, Payroll and Finance.

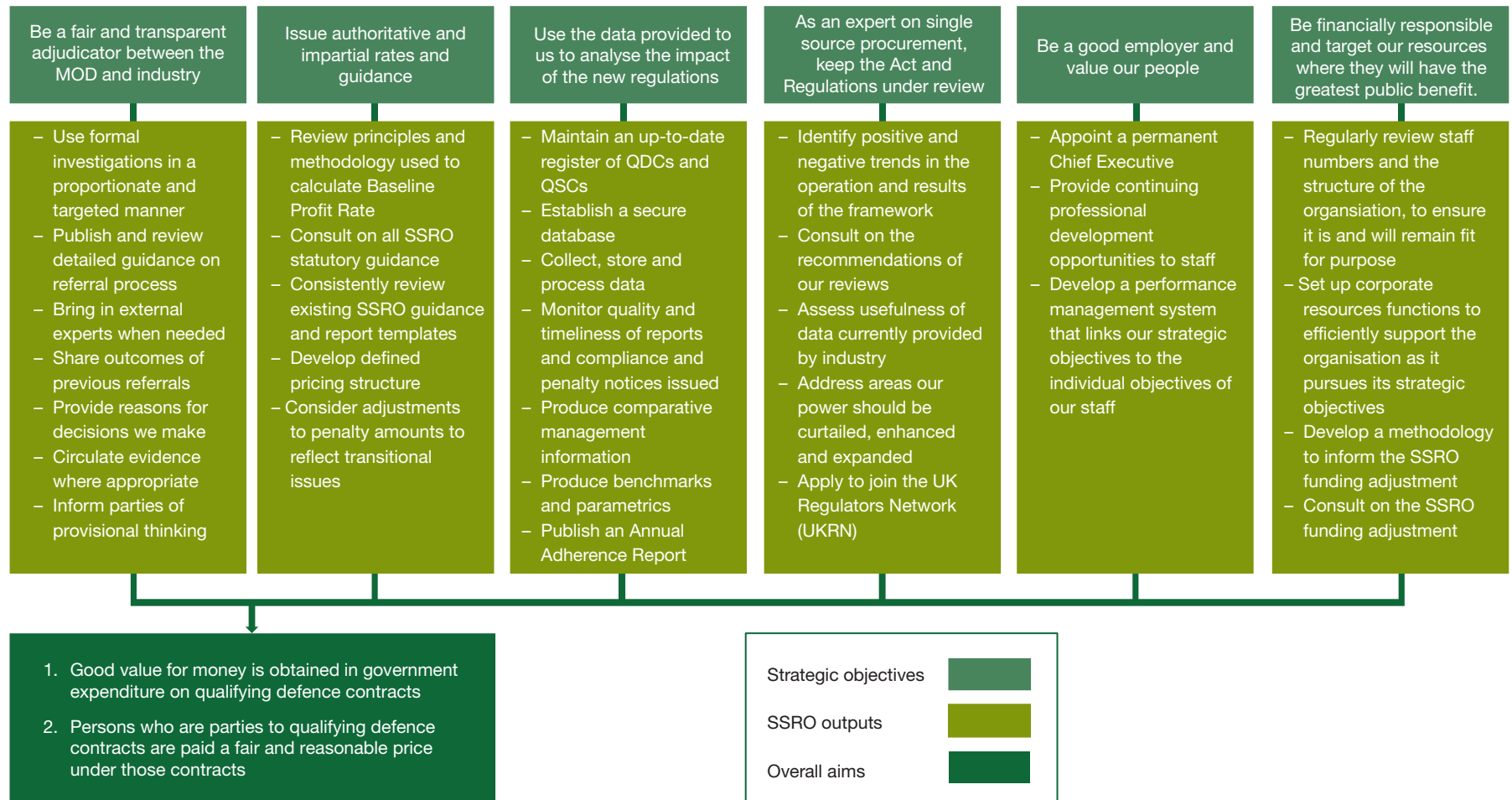
How we will achieve this objective

- Our corporate resources functions will be set up to efficiently support the organisation as it pursues its strategic objectives.
- In 2015/16, we will develop a methodology to inform the SSRO funding adjustment. We will consult on the SSRO funding adjustment in 2016.
- We will regularly review staff numbers and the structure of the organisation, to ensure it is and will remain fit for purpose.

Key performance indicators

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

Figure 8: SSRO strategic objectives and outputs



Section 3: The Defence sector – the regulatory challenge

Defence procurement is distinguished by the highly specialised nature of the equipment and services bought for the Armed Forces and the security considerations that are inherent to it. Wherever possible, the MOD procures equipment through open competition in a global market. The MOD has estimated that savings of up to £200 million a year could be achieved through reforming the single source regulatory framework.²

The security requirement to source and sustain certain capabilities within the UK – for example nuclear submarines – and the limited supplier base that exists to support this, means that single source procurement is and will remain a significant activity.

Single source contracts relate to the delivery of highly specialised defence equipment for our 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;
- when there are strong reasons for maintaining national capability;
- because of the specialised or unique characteristics of the required services; or
- for issues of national security.

The MOD estimates that it spent around £8.6 billion on single source contracts in 2013/14, accounting for around 45 per cent of MOD procurement on goods and services with the private sector. The proportion of MOD spending through single source contracts is likely to remain at a similar level for the foreseeable future. Non-competitive contracts account for over half of all MOD contracts, and the taxpayer is entitled to know that this money is being spent properly. Just as importantly, industry is entitled to expect a fair return for the investments they make, and the commercial risk they take, in supplying the Armed Forces.

² <https://www.gov.uk/government/news/mod-contract-rules-changes-could-save-200-million-a-year>

Figure 9: Third party expenditure on Headquarter contracts 2013/14²

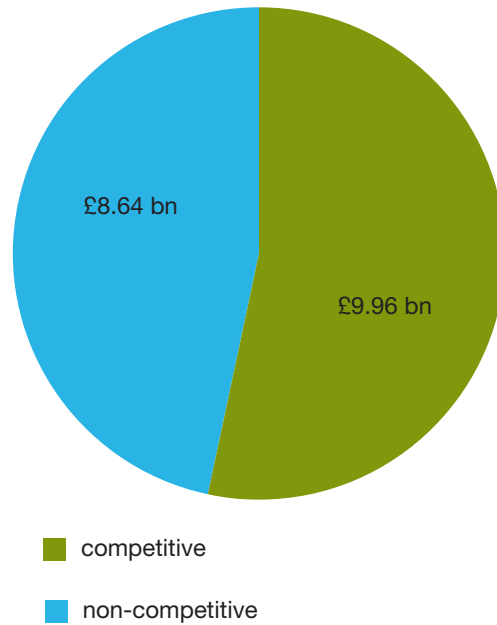
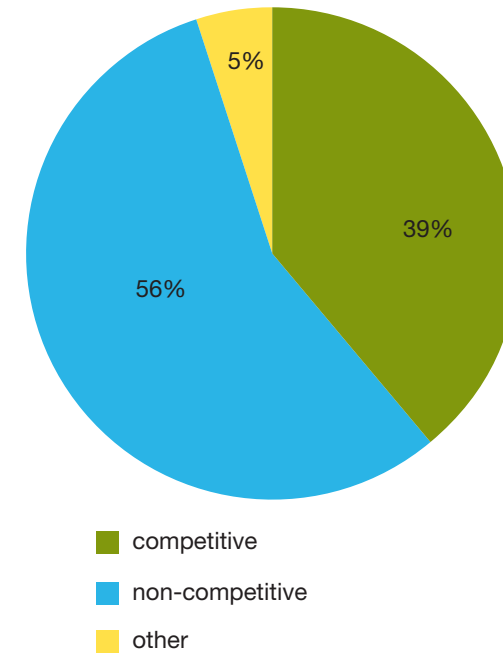


Figure 9b: Percentage of 2,328 new MOD HQ contract placed 2013/14³



² Payments shown are VAT exclusive at Current Prices.

A small level of spend was on contracts that were neither competitively nor non-competitively let. This figure (around £7 million) was too small to be shown in the pie chart.

Figures exclude payments on contracts with Central Government, Local Government, Public Corporations, Foreign Governments, miscellaneous payments and Government Procurement Card payments, the total of which is around £6 billion

³ Excluded from the 2013/14 (83) statistics are Pan Government Enabling Contracts that appear on MOD systems but which will incur expenditure from Other Governmental Departments as well as from MOD.

Source: MOD Annual Statistical Series 1, Finance Bulletin 1.01 Trade, Industry & Contracts 2014.

The SSRO will regulate an area that has not previously been scrutinised. The challenge is to secure credibility in a sector where the relationships between the MOD and prime contractors are well established. Establishing our credibility is particularly critical for a new and developing organisation with limited resources, making decisions that may not always be welcomed by some of its stakeholders, many of whom are influential and well resourced.

It is impossible for a regulator to take a course and make decisions that are welcomed by all parties and it should not seek to do so. We do not expect that every party will agree with all of our actions, but we want all parties to understand why we have acted, and respect our decisions.

We will do so by asserting our independence and holding ourselves to the highest standards of professionalism, accountability, and transparency.

We will maintain consistent engagement with industry and the MOD. Without exception, all contractors have engaged positively with the SSRO, as we have delivered our first statutory functions, even those that disagree with us. They recognise that the SSRO has a job to do and they are providing honest and helpful feedback.

We were not notified by the MOD of any QDCs in place during 2014/15 and this has meant that much of our work to date has been theoretical. The implementation timetable also means that we have been required to establish the SSRO as an organisation at the same time as being responsible for issuing statutory guidance.

From 2017, industry will pay for half of the running costs of the SSRO. We will ensure our resources are well-targeted and used efficiently to ensure the success of the framework and the aims and objectives of the SSRO.

The SSRO has a wide remit. As the expert guardian and adjudicator of the single source procurement regime, we will issue statutory guidance; monitor contract compliance, analyse and benchmark costs; give opinions and determinations if disputes are referred; report on performance annually; and review the Act and Regulations to ensure they remain fit for purpose.

In undertaking this work, we will strive to be fair, to listen to all parties, and to remain impartial at all times. We will also look across the public sectors and work with others to understand lessons from single source procurement elsewhere.

Section 4: Alternative scenarios and risk factors

The SSRO acknowledges there are a number of risks that may significantly affect the execution of its Corporate Plan. The following are the main risks we have identified:

The SSRO has a limited impact and does not add value

The SSRO is legally challenged

Lack of stakeholder engagement

Insufficient capacity

Insufficient resources

Systems / IT failure

The SSRO gains assurance that risks are kept under control by ensuring controls are robust in design and work as intended, as well as implementing processes to mitigate the individual risks. The SSRO manages its risks through a corporate risk register, which is considered at the Executive Committee and overseen by the Audit Committee. The majority of the risks identified are mitigated by the plans and actions set out in this document. The most significant residual risk that may impact on the delivery of the corporate plan arises from the uncertainty over the number of QDCs. This is discussed below.

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

The main driver influencing a number of the scenarios is the timing and volume of QDCs and QSCs that will be signed over the next 12 months. The number of QDCs will be impacted upon by a number of factors including the pre-election embargo period, the expenditure plans of the next government, the political environment, and the fact the SSRO is operating in a new legislative framework. Given the lengthy relationships that already exist between MOD and the defence industry we have sought indicative data from the MOD and supported this with our own analysis. There remains however a degree of uncertainty.

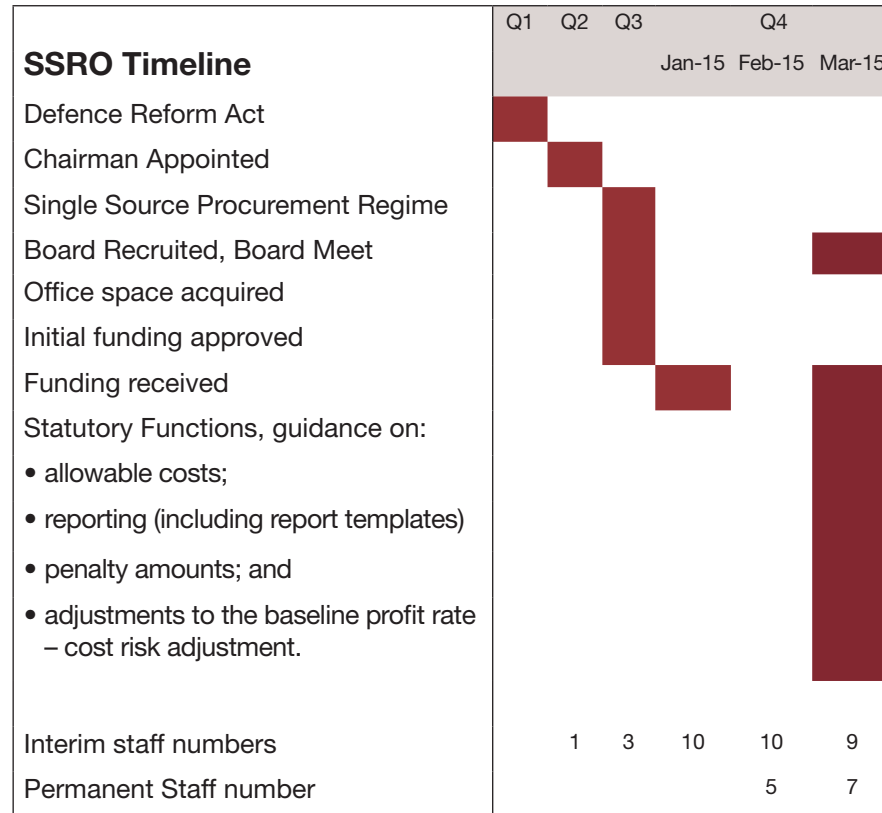
This will have a knock on effect on the number of referrals, opinions and determinations, the majority of which will flow from the initial QDCs. To mitigate this, the SSRO has considered historic single source contract data, comparable data from relevant industries and information from stakeholders. This enables us to plan resources effectively to deliver our functions and execute our corporate plan, whilst also allowing flexibility to react to the different scenarios identified.

This will be reviewed on an ongoing basis. Initial resource plans have been based on a flexible and agile approach that can adapt to potential different scenarios. We have agreements in place with existing suppliers to react to temporary workload variations. Our pilot database system and long term plans for the system are again based on a flexible and scalable solution.

Section 5: Business plan

The SSRO has delivered its statutory functions in 2014/15 against a back drop of limited capacity and the significant challenge of establishing a new regulatory organisation in accordance with a demanding legislative timetable (see figure 9). This is a considerable achievement and has placed the SSRO in a strong position to meet the challenges of delivering its aims and objectives over the next three years. Our first Annual Report and Accounts show this was delivered well within the funding envelope, incurring £1.4 million of spend against MOD funding of £1.6 million [unaudited].

Figure 9: Delivery of statutory functions in 2014/2015



We have agreed expenditure plans for the current year with the MOD based on a funding level of £4.7 million. As set out in the table below this reflects both the shift from temporary to permanent staffing but also a gradual phasing out of those one off costs associated with the establishment of the organisation (primarily accommodation, IT infrastructure and our regulatory database). There remain a number of risks and uncertainties, as outlined in the previous section. We have agreed with the MOD that should QDC volumes or other regulatory functions require additional capacity or resources we will revisit funding

arrangements. This is reflected in the construction of the three year expenditure plans set out below which have been kept at modest levels in line with our commitment to be an efficient and lean regulator. MOD will fund all costs associated with referrals during this period, reflecting the significant variability in this area of the SSRO's statutory functions. These costs are not reflected in the SSRO's three year plan below.

	2015/16 £000	2016/17 £000	2017/18 £000
Running costs			
Staff costs	3,043	3,291	3,328
Accommodation	548	562	576
IT Costs	395	411	431
Professional Fees and legal costs	300	300	300
Other costs	201	227	229
Total running costs	4,487	4,791	4,864
One-off costs			
Office set up	22	–	–
IT set up	30	–	–
Regulatory database	166	100	–
Total one-off costs	219	100	–
Total spend	4,705	4,891	4,864

Section 6: Review of performance 2014/15

As a new organisation, the SSRO did not have strategic objectives in place for 2014/15, or any key performance indicators in place to measure our performance against. The main focus of its Board was to establish the organisation envisaged by the Defence Reform Act and to undertake the statutory functions required by the Act.

Statutory functions required by the Defence Reform Act

During the year of its formation, the SSRO has fulfilled all its statutory duties during 2014/15. This includes:

- Publishing statutory guidance on allowable costs. The SSRO's guidance on allowable costs provides the principles which contractors and the MOD must have regard to when determining whether costs are 'allowable' under QDCs and QSCs. Our draft guidance was issued for public consultation in November 2014. We received a high volume of responses, which provided us with constructive feedback through which we were able to improve the guidance. The final version of the guidance, incorporating the relevant changes, was published on 26 January 2015. Alongside the final version, we published the responses received from stakeholders, and a document setting out how we responded to their comments.
- Proposing rates relevant to determining the contract profit rate. The Act requires the SSRO to annually review the rates used to determine the contract profit rate and provide the Secretary of State with its assessment of what is appropriate for the forthcoming year. On 23 January 2015 we recommended the 2015 Contract Profit Rate to the Secretary of State. The recommended baseline profit rate of 10.6 per cent for 2015 represented a 0.1 per cent reduction on the 2014 rate. The Secretary of State for Defence accepted the recommended figures on 11 March 2015.
- Publishing statutory guidance on reporting, including templates that can be used to meet the requirements of the SSCRs. This is the first time reporting requirements have been a statutory duty for QDCs and QSCs. Therefore the SSRO has also produced user guides in order to assist contractors when completing and submitting the required reports. Our draft guidance was issued for public consultation in February 2015 and the final version of the guidance was published on 27 March 2015. We have established an operational working group with the MOD, industry representatives and our outsourced specialist secure data management partner to discuss and put into place the arrangements for the collection and storage of the reporting data.

- Publishing statutory guidance on penalty amounts for use by the MOD in issuing penalty notices. Our draft guidance was issued for public consultation in February 2015 and the final version of the guidance was published on 26 March 2015.
- Consulting on a draft defined pricing structure using the example of sea systems, and establishing our overall approach to developing the DPS, in February 2015.
- Publishing statutory guidance on calculating four of the adjustments to the baseline profit rate: cost risk adjustment; profit on cost once; incentive adjustment; and capital servicing adjustment. A fifth adjustment, the SSRO funding adjustment, is set at zero until 2017. Our draft guidance on adjustments was issued for public consultation in February 2015. The final version of the guidance, incorporating the relevant changes, was published on 26 March 2015. Alongside the final version, we published the responses received from stakeholders, and a document setting out how we responded to their comments. The guidance is available on our website.
- Publishing guidance on the SSRO's internal procedures for issuing opinions or legally binding determinations in response to referrals from the Ministry of Defence or from a contractor. The guidance was published in March 2015.

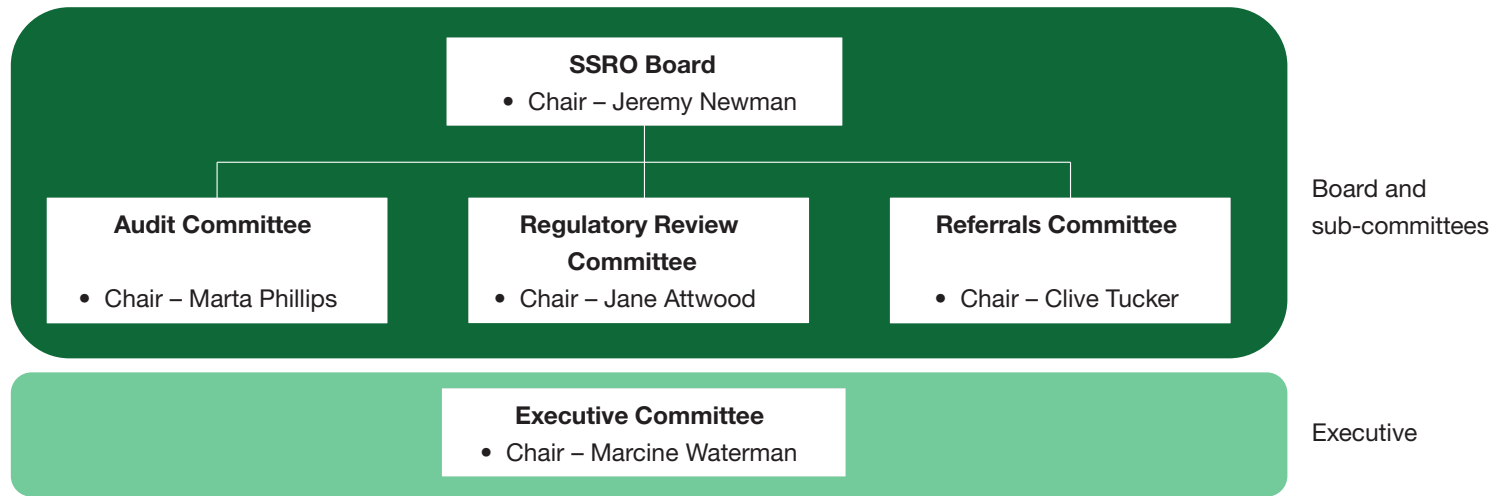
Governance

In 2014/15, the SSRO established effective governance arrangements so that its Board could make robust, evidence based decisions, in line with governance best practice.

The Chair of the SSRO, Jeremy Newman, was formally appointed on 21 July 2014 by Philip Dunne MP, Minister for Defence Equipment, Support and Technology. Three further non-executive Board members were appointed by the Secretary of State for Defence in September 2014: Clive Tucker, Jane Attwood and Marta Philips. The SSRO Board has met five times since the SSRO's formation. In 2014/15, it approved the following decisions relating to its governance:

- The SSRO's Framework Document with the MOD, which asserts our independence from government while ensuring that the organisation abides by the Treasury rules on the use of public funds.
- The Financial Framework for the SSRO, signed by the Interim Chief Executive of the SSRO and the Permanent Under-Secretary of State of the MOD.
- The structure of its sub-committees. The following committees have been established: an Audit Committee; a Regulatory Review Committee; and a Referrals Committee, which will be established on a case by case basis and will have an independent member selected from a panel of external experts. Since their establishment, all Board sub-committees have met at least once, and have agreed their terms of reference.

Figure 10: SSRO committee structure



- The SSRO's Corporate Governance Framework, created in line with HM Treasury and Cabinet Office guidance on corporate governance for arms' length bodies, sets out the SSRO's responsibilities and the procedures it will use to ensure it is governed to a high standard.
- A Code of Conduct for Board members and staff, ensuring that members act in good faith and in the best interests of the SSRO. This included the establishment of a register of interests for Board members on the SSRO website.
- The SSRO's Gifts and Hospitality Policy, ensuring that members and staff exercise the utmost care in accepting hospitality or gifts where there could be a real or perceived conflict with their official duties at the SSRO. The register of gifts and hospitality, required by the policy, is also published on the SSRO's website.
- The SSRO's Whistleblowing Policy.

As the SSRO is a transparent organisation, all Board agendas and minutes are published on the SSRO website.

As a newly established organisation with no appointed permanent senior staff or established Executive Committee throughout the reporting period, the part-time Interim Chief Executive sought to establish robust project management arrangements for the transition from initial set up to full establishment. An SSRO Transition Programme Board was established with the MOD, which acted as an oversight board on issues such as the SSRO's transition plan; the transition risk and issues registers; proposals for data collection, storage and analysis; and access to MOD draft interim guidance on profit adjustments and the defined pricing structure.

All governance arrangements have been put in place in a short space of time and with limited resources. The SSRO's internal auditors (the Government Internal Audit Agency) have provided substantial assurance to the Interim Chief Executive that the SSRO's governance processes are robust.

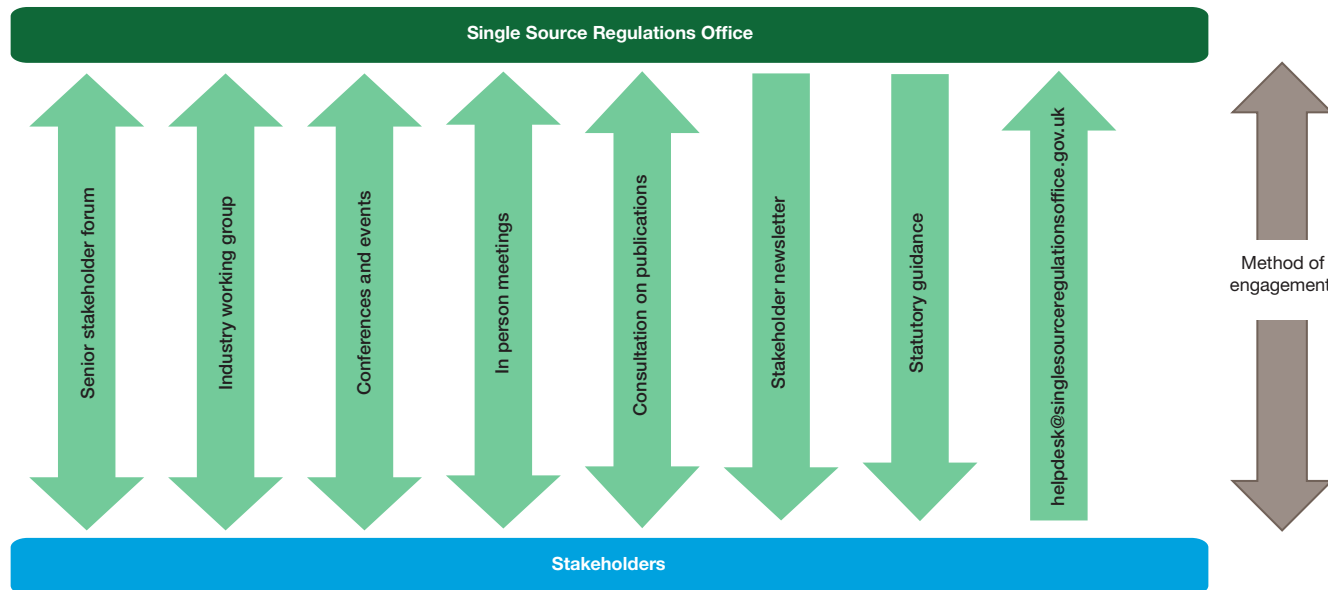
Engagement with stakeholders

The SSRO has a diverse network of stakeholders and has sought in 2014/15 to manage engagement with these stakeholders proactively. This is particularly critical for a new and developing organisation with limited resources, making decisions that may not always be welcomed by some of its stakeholders, many of whom are influential and well resourced.

Examples of engagement includes:

- Meetings with stakeholders. The Chair has met with senior representatives from all prime defence contractors and has visited several of their UK production facilities, as well as attending industry forums and speaking at industry events. The Chair has also met key ministers and officials at the MOD and senior colleagues across government, other regulators, academia and think tanks to discuss the work of the SSRO.

Figure 11: SSRO's stakeholder engagement



- The first SSRO Senior Stakeholder Forum, which was held on 5 February 2015. The aim of the forum is to bring together all prime defence contractors and the MOD to discuss issues of mutual interest. Representatives from 15 defence companies, ADS, and the MOD attended. As well as providing a formal opportunity for introductions, networking, and to view the new SSRO office, the Senior Forum provided an opportunity to discuss the SSRO's statutory functions, including work on the Defined Pricing Structure.
- The SSRO holds quarterly discussions of mainly operational matters with the prime defence contractors. The first working group with industry was held on Tuesday 24 March. The working group was attended by representatives from all prime defence contractors and participants discussed SSRO report templates and user guides; the proposed process and timetable for data collection; and the Defined Pricing Structure.
- We have published two newsletters in 2014/15, which have also been sent out to all our stakeholders and are available to view on our website.
- We have issued two press notices, highlighting the publication of the guidance on Allowable Costs and our recommended contract profit rate to the Secretary of State, which was later accepted. The Chair was also interviewed by ADS Advance magazine.

