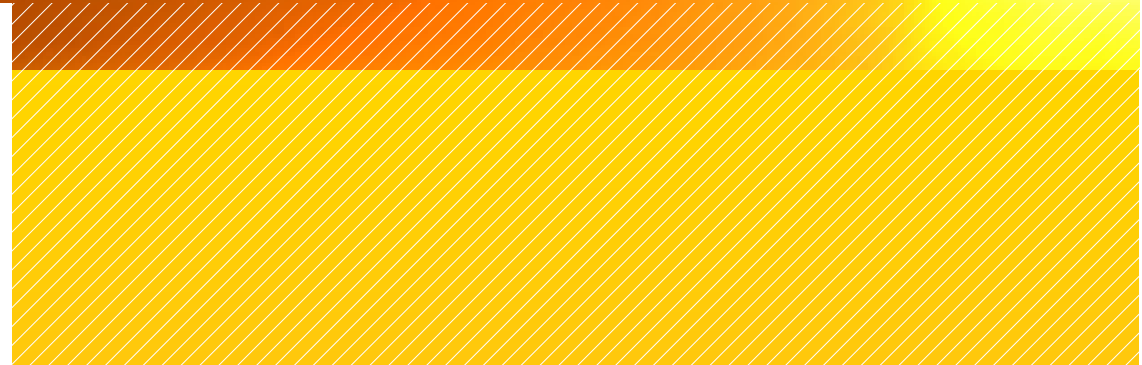




**SSRO**

Single Source  
Regulations Office

*Assuring Value,  
Building Confidence*



## Compliance Rating Methodology



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## 1. Overview

The SSRO has created a methodology to measure defence contractor and Ministry of Defence (MOD) compliance with their duties and obligations under the Defence Reform Act and the Single Source Contract Regulations, from which data and rating scores will be produced. These results will be assessed and published in the SSRO's Compliance Report.

The SSRO will carry out compliance assessments throughout the year, and publish these at least annually, in January. The SSRO may also decide to publish its assessments each quarter during the year.

## 2. Approach

The SSRO has developed a process for measuring compliance with the single source procurement regime. This was supported by research into methodologies used by other regulators, credit rating agencies and other independent organisations.

The methodology requires the SSRO to scrutinise the reports provided on each contract, but does not require the SSRO to give full assurance that contracts meet all the Regulations.

The methodology is summarised below:

- Compliance by the MOD and by contractors is measured through three indicators or indicator groups each.
- MOD compliance is measured through indicators that relate to its duty to notify the SSRO of any QDCs, to notify the SSRO of verification within

30 days, and consistent application of the allowable costs and contract rate requirements when entering into a QDC.

- Contractor compliance is measured through indicators relating to their duty to submit accurate reports to the SSRO, their compliance with the allowable costs and contract profit rate requirements.
- Assessments will be carried out for each contract, and for each set of supplier reports. This data will then be used to calculate MOD and contractor compliance.
- Scores will be averaged to produce an overall mark for the MOD and for individual contractors over the compliance measuring period. Averaged overall indicator ratings and scores will also be calculated to identify specific areas of good and poor compliance.
- Contract scores, including a breakdown of indicator scores, will also be published to identify contractor compliance where contractors have multiple contracts over a year. Contractors' names will be published, while contracts will be anonymised.

### 3. Allowable costs and contract profit rate assessments

The SSRO will independently assess, through reports submitted by contractors, whether a contract is in line with the contract profit rate guidance, and whether there are any clearly non-allowable costs in the contract. Contractors' scores will be determined by the SSRO's assessment of whether reports comply with the SSRO's guidance. The MOD will be deemed to have not complied where it has agreed to or failed to identify breaches in the Regulations or SSRO guidance.

Compliance ratings reflect assessments made on information required to be submitted to the SSRO or that the SSRO has become aware of. Consequently, the SSRO will not provide full assurance on compliance, as it is for the MOD to ensure that contracts it enters into comply with the framework. For example, whether costs are allowable is often a matter for judgement, and the SSRO will only provide a full judgement when asked to do so when the matter is referred to it for an opinion or determination. However, if there are any costs that are clearly not allowable, and the SSRO becomes aware of these, then that will inform the assessment of compliance.

### 4. Communication with MOD and contractors

Where the SSRO has found that the MOD or a contractor is not compliant, the SSRO will write formally to ensure the affected party is fully aware of the SSRO's view, and that this will be reflected in the annual Compliance Report.

If an issue is resolved (for example a non-allowable cost is removed) via a referral, the issuing of a compliance notice or negotiations, the SSRO would note the resolution in the Compliance Report, and the matter would not affect the compliance rating. Opinions and determinations that result in a change to compliance assessments that have already been included in a published Compliance Report will be amended in the following report.

### 5. Information security

Where published results are broken down to contract level, contracts will be exclusively identified on an alphabetical basis (i.e. Contract A, Contract B etc.) to protect sensitive or confidential information.

## 6. Assessment process

### Contract compliance

This will be measured as a series of ‘ticks’ and ‘crosses’ for each indicator, which represent compliance or non-compliance with the specified requirement.

Indicator	Measure	x / √	Who responsible
1a	All required reports submitted		Contractor
1b	All required reports submitted within the required deadline		Contractor
1c	Report data quality was satisfactory		Contractor
1d	The MOD has informed the SSRO of the QDC		MOD
1e	The MOD's notification of the QDC was accurate		MOD
1f	The MOD has verified the contractor reports		MOD
2	Contract includes the correct profit rate calculations		Contractor and MOD
3	The SSRO considers all identifiable costs to be allowable		Contractor and MOD

### Supplier report compliance

This will be measured as a series of ‘ticks’ and ‘crosses’ for each indicator, which represent compliance or non-compliance with the specified requirement.

Indicator	Measure	x / √	Who responsible
1a	All required reports submitted		Contractor
1b	All required reports submitted within the required deadline		Contractor
1c	Report data quality was satisfactory		Contractor
1d	The MOD has verified the supplier reports		MOD

## Contractor compliance

Contractor compliance will be measured as an amalgamation of scores for contract compliance and supplier report compliance as follows.

### Indicator 1: contract and supplier reports

Indicator	Score	Weighting (per cent)
All required reports submitted	The number of ticks from indicator 1a from each contract and 1a on the supplier report, as a percentage of the total.	30
All required reports submitted within the required deadline	The number of ticks from indicator 1b from each contract and 1b on the supplier report, as a percentage of the total.	10
Report data quality was satisfactory	The number of ticks from indicator 1c from each contract and 1c on the supplier report, as a percentage of the total.	60
Total weighted score:		

'Reporting' band determinations	
Band	Score required (per cent)
Green	>90 - 100
Amber	>70 - 90
Red	0 - 70

### Indicator 2: profit rate

Number of contracts with a 'tick' for indicator 2, divided by total number of contracts

Contract profit rate band determinations	
Band	Score required (per cent)
Green	>90 - 100
Amber	>70 - 90
Red	0 - 70



### Indicator 3: non-allowable costs

Number of contracts with a 'tick' for indicator 3, divided by total number of contracts.

Allowable costs band determinations	
Band	Score required (per cent)
Green	>90 - 100
Amber	>70 - 90
Red	0 - 70

### Calculating overall scores

Weighting for calculating overall contractor contract score	
Indicator	Weighting (out of 100)
Reports	10 per cent
Contract profit rate	20 per cent
Allowable costs	70 per cent

Overall band determinations	
Band	Score required (per cent)
Green	>90 - 100
Amber	>70 - 90
Red	0 - 70

## MOD compliance

### Indicator 1: contractor and supplier reports

Indicator	Score	Weighting (per cent)
The MOD has informed the SSRO of the QDCs	The number of ticks from indicator 1d from each contract, as a percentage of the total.	33.3
The MOD's notification of the QDC was accurate	The number of ticks from indicator 1e, as a percentage of the total.	33.3
The MOD has notified the SSRO of report verification	The number of ticks from indicator 1f from each contract and 1d on the supplier report, as a percentage of the total.	33.3
Total weighted score:		

'Reporting' band determinations	
Band	Score required (per cent)
Green	>90 - 100
Amber	>70 - 90
Red	0 - 70

### Indicator 2: profit rate

Number of contracts with a 'tick' for indicator 2, divided by total number of contracts.

Contract profit rate band determinations	
Band	Score required (per cent)
Green	>90 - 100
Amber	>70 - 90
Red	0 - 70

### Indicator 3: non-allowable costs

Number of contracts with a 'tick' for indicator 3, divided by total number of contracts.

Allowable costs band determinations	
Band	Score required (per cent)
Green	>90 - 100
Amber	>70 - 90
Red	0 - 70

### Calculating overall score

Weighting for calculating overall MOD contract score	
Indicator	Weighting (out of 100)
Reports	33.3 per cent
Contract profit rate	33.3 per cent
Allowable costs	33.3 per cent

Overall band determinations	
Band	Score required (per cent)
Green	>90 - 100
Amber	>70 - 90
Red	0 - 70

## Format of publication

### Raw assessment by contract

Each cell would be populated by a tick or a cross.

	All required reports submitted	All required reports submitted within the required deadline	Report data quality was satisfactory	MOD has informed the SSRO of the QDC	The MOD's notification of the QDC was accurate	MOD has notified the SSRO of reports verification	Contract has applied profit rate calculations correctly	The SSRO considers all identifiable costs to be allowable
Contract A								
Contract B etc.								

### Raw assessment for supplier reports

	All required reports submitted	All required reports submitted within the required deadline	Report data quality was satisfactory	MOD has provided feedback to supplier on reports
Contractor A				
Contractor B				

## Contractor scores

Contractor names will be published in this table.

Each cell would be populated with a percentage score and a RAG status.

Contractor Compliance Scores 2015				
Contractor name	Indicator breakdown			Overall score
	Reports	Contract profit rate	Allowable costs	
Contractor A				
Contractor B				

## MOD score

Each cell will be populated with a percentage score and a RAG status.

MOD Compliance Scores 2015			
Indicator breakdown			Overall score
Notification	Contract profit rate	Allowable costs	

