



**SSRO**

Single Source  
Regulations Office

*Assuring value, building confidence*

Programme of Value for Money Studies  
Consultation paper

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# Background

## 1. Introduction

- 1.1 The Defence Reform Act 2014 (the Act)<sup>1</sup> requires that, in carrying out its functions, the SSRO must aim to ensure that good value for money is obtained in government expenditure on qualifying defence contracts and that persons who are party to those contracts are paid a fair and reasonable price (Section 13(2) of the Act).
- 1.2 The SSRO's Corporate Plan 2015-18<sup>2</sup> sets out how the SSRO will contribute to this requirement by conducting analytical work that supports the Ministry of Defence (MOD) and industry to deliver good value for money. This analytical work will use a range of evidence and will generate comparative management information and defence benchmarks and parametrics<sup>3</sup> to help drive improvements.
- 1.3 This consultation proposes a series of value for money studies that would enable the SSRO to deliver the objectives set out in its Corporate Plan.

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1 See the Defence Reform Act 2014: <http://www.legislation.gov.uk/ukpga/2014/20/enact>

2 See SSRO's Corporate Plan: <https://www.gov.uk/government/publications/ssro-corporate-plan-2015-2018>

3 The development of parametrics is not considered in this consultation but will be considered in future.

## 2. Approach to value for money analysis

- 2.1 The SSRO will undertake an ongoing programme of analytical work, which will enable it to comment on value for money issues, identify the potential for savings and facilitate the sharing of best practice where appropriate. This programme of work will include:
  - discussion papers;
  - in-depth analytical studies; and
  - the provision of benchmarking data.
- 2.2 An in-depth study will be a research project on a specific issue that may be impacting on the achievement of value for money in single source contracts. The SSRO will aim to conduct up to two of these studies per year. The outputs could include:
  - a published report, with key findings;
  - the estimated potential for savings (if appropriate);
  - recommendations to improve value for money, for both the MOD and industry;
  - tools for the MOD and industry to use (for example benchmarking tools or checklists); and
  - updates to the SSRO's guidance, for example its Single Source Cost Standards or reporting templates.

- 2.3 The SSRO will individually scope each study ahead of its commencement to determine how best to undertake the analysis. Such studies could draw upon a range of data and information and use a series of methodological techniques (including benchmarking, qualitative research and data analysis) to formulate findings. Examples include:
- data provided to the SSRO in reports from industry;
  - data held by the MOD, where it can be appropriately shared with the SSRO;
  - interviews with industry and the MOD;
  - contract case studies;
  - private sector data; and
  - academic and specialist input.
3. **Data Confidentiality**
- 3.1 Data confidentiality is of the utmost importance. The SSRO's benchmarking studies will focus on explaining data ranges rather than publishing data on identified individual companies. Where appropriate, the SSRO might consider providing more bespoke (and confidential) results to contractors to explain where they sit within the data range.
4. **Expected benefits of the programme**
- 4.1 The SSRO's analytical work is expected to facilitate improvements by highlighting examples of notable practice and behaviour, which will benefit both the MOD and industry. As set out in its Corporate Plan, the SSRO's work will aim to:
- help the MOD secure better value for money by analysing cost information to highlight where a supplier's spending is consistently higher than the benchmark;
  - allow the MOD to use the data to negotiate and manage contracts more closely in accordance with the Defence Reform Act;
  - highlight areas to suppliers where they consistently spend more than others for comparable goods or services and therefore where efficiency may be improved; and
  - enhance the overall credibility of the single source procurement regime.
- 4.2 This work is separate to any requests made to the SSRO to provide independent insights for the Secretary of State for Defence, funded under section 37 of the Defence Reform Act. It is also separate to any potential requests from industry that it would fund to perform ad hoc analysis on its behalf (where this does not compromise confidentiality commitments to other suppliers), as referred to in the Framework Document between the SSRO and MOD<sup>4</sup>. The MOD and industry need not be limited to topics outside or inside the SSRO's published programme of value for money studies and can opt to, for instance, submit a funded request for the SSRO to consider earlier, bespoke analysis on a topic that is included within the programme.

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<sup>4</sup> See para 7.2 Framework Document for the SSRO: <https://www.gov.uk/government/publications/framework-document-for-the-single-source-regulations-office>

## 5. Consultation timetable

- 5.1 The SSRO invites views on the in-depth study topics proposed in section 7. The consultation runs for seven weeks from 30 October 2015.
- 5.2 Please submit comments via the form provided at <https://www.gov.uk/government/consultations/programme-of-value-for-money-studies> by Friday 18 December 2015.
- 5.3 The SSRO will publish a response to the consultation in January 2016.

# Overview of proposed work programme

## 6. Introduction

6.1 The SSRO will set out an indicative three year programme of analytical research (which will be subject to scoping work undertaken for individual projects) following this public consultation.

## 7. Proposed topics of study

7.1 The SSRO has identified seven areas of potential research to include in the programme. The list below is not exhaustive and the SSRO may include additional topics in its work programme, taking suggestions emerging from consultation responses into account.

### The treatment of inflation in single source contracts

How inflation is accounted for can have significant cost implications for multi-year single source contracts. A study could, for example, consider the different use of indices across contracts and review best practice.

### Pay rates used in delivery of single source contracts

Labour is a significant cost in many contracts. A study in this area could look at pay rates or increases across contractors, or in comparison to similar jobs elsewhere in the economy.

### Overhead rates used in delivery of single source contracts

The Currie Report<sup>5</sup> noted that overhead costs were larger than direct labour costs. A study could research the methodology and assumptions behind rates agreed by the MOD and contractors.

### Cost of maintaining facilities

The Currie Report noted the importance of transparent cost information in allowing the effective management of sites that have strategic national importance. The strategic industry capacity reports (SICRs) will provide the SSRO with a range of data. A study drawing on this information could provide valuable insight into the cost of maintaining facilities and best practice in planning.

### Cost of the back office

From 2016 onwards, the SSRO will start to receive information from Qualifying Business Units on back office costs. A study might highlight variations in spend, for example in Finance, HR and IT functions, and set out where there may be potential for efficiencies.

### Amendments to contracts

The number of amendments (including changes to specification) made to contracts by the MOD may provide flexibility, but might also lead to delays and additional costs. A study could consider best practice in this area.

### Use of pricing methods in single source contracting

The Single Source Procurement Regulations<sup>6</sup> provide for six different pricing methods to be used in Qualifying Defence Contracts. A study could consider the extent that each of the pricing methods are used, whether there are variations in how they are applied, and review best practice.

<sup>5</sup> See Lord Currie's independent report into single source pricing regulations: <https://www.gov.uk/government/consultations/consultation-on-the-independent-review-of-single-source-pricing-regulations-responses>

<sup>6</sup> See the Single Source Procurement Regulations 2014: <http://www.legislation.gov.uk/ukSI/2014/3337/contents/made>

## 8. Other considerations

- 8.1 In some cases, value for money studies may need to await availability of sufficient data, which will only be returned to the SSRO and built up over time. Work will also need to be undertaken to confirm whether the data will be of sufficient quality and comparability to undertake a study.
- 8.2 Where data is not currently available or is limited, the SSRO will consider producing early discussion papers on topics, based for example on existing evidence and interviews, to be followed by a fuller or more quantitative study at a later date.
- 8.3 The SSRO might also consider opportunities for conducting joint studies with other organisations, including other regulators or audit bodies. Any such collaboration would require discussion on a case-by-case basis to assess whether joint work is mutually beneficial.

