



SSRO

Single Source
Regulations Office

Assuring value, building confidence

Programme of value for money studies
2016/17 - 2018/19

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1. Background

1.1 The Defence Reform Act 2014 requires that, in carrying out its functions, the SSRO must aim to ensure that good value for money for the taxpayer 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.

1.2 The SSRO's Corporate Plan 2015-18 sets out how it 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 to help drive improvements.

1.3 On 30 October 2015, the SSRO launched a seven week public consultation on a list of potential topics and invited views on what the SSRO's priorities for value for money studies should be.

1.4 The consultation was published on [the SSRO's website](#), and was directly emailed to our stakeholder contacts with a consultation response form setting out specific questions on potential topics.

1.5 The SSRO may also be requested to carry out analysis, which could include topics within the programme. The Secretary of State for Defence may request the SSRO to provide independent insight, funded under section 37 of the Defence Reform Act.

1.6 Industry could potentially request ad hoc analysis on its behalf (where this does not compromise confidentiality commitments to other suppliers), that it would fund, as referred to in the Framework Document between the SSRO and the MOD¹.

1.7 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. The SSRO will be clear whether it is carrying out work following a formal request, or as part of its own programme.

1.8 This document sets out SSRO's three year plan for analytical research and analysis.

2. Response to the consultation

2.1 In total, we invited 87 stakeholders to respond to the consultation, including government bodies, defence industry contractors, consultants, academics, professional associations, think tanks and regulatory bodies. The consultation closed on 18 December 2015.

2.2 We are grateful to all stakeholders who responded to the consultation. In total we received 14 responses from stakeholders, which can be found on the SSRO's website, where there was agreement to publish these.

2.3 The majority of respondents, including all respondents from industry, agreed that the programme was useful. The SSRO has carefully considered all responses and believes the programme of analytical studies will provide insights that will help the MOD and industry secure good value for money. It will also provide the SSRO with evidence that will support its regulatory functions.

2.4 The respondents promoted the importance of methodological issues that underpin investigation in this area. The SSRO acknowledges that the value for money studies are complex undertakings and will ensure that each study has appropriate methodological design and conduct, along with interpretative rigour and data confidentiality.

¹ See para 7.2 Framework Document for the SSRO: <https://www.gov.uk/government/publications/framework-document-for-the-single-source-regulations-office>

- 2.5 As well as providing a view on priorities, respondents also suggested a number of additional topics for studies, the majority of which were in scope for the SSRO. Many of the additional topics will be considered in other areas of the SSRO's work, rather than as a full analytical study.
- 2.6 Study topics felt to be appropriate for the SSRO were considered alongside the seven studies proposed in the consultation in terms of their potential to yield insights into value for money in single source procurement.
- 2.7 Two of the suggested additional study topics were considered by the SSRO to be important to include in the current three year study programme. These were:
- the consideration of risk in single source contracts; and
 - single source procurement and contract management processes.
- 2.8 The consultation responses included feedback relating to benchmarking, expressing concern about how factors such as unique business models, capabilities and locations would be considered. The SSRO will ensure any work in this area is methodologically robust and that interpretation is appropriate.
- 2.9 All industry respondents expressed an interest in cooperation with the SSRO to develop studies. Areas proposed for cooperation included workshops, steering groups, analysis and interpretation of findings. The SSRO is grateful for such offers and will draw upon these where appropriate to inform the design and undertaking of its programme of analytical studies.
- 2.10 The SSRO has taken into account the detailed observations provided by respondents in making decisions on its three year plan of analytical study.
3. **Our plan for value for money studies**
- 3.1 The SSRO's analytical work will facilitate improvement by highlighting examples of notable practice and behaviour, which will benefit both the MOD and industry. As set out in its 2015-18 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;
 - produce research, views and recommendations with which the MOD may better understand where data can be used 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 overall credibility of the single source procurement regime.
- 3.2 Value for money studies will facilitate the SSRO's functions by providing evidence to support:
- the SSRO's work under Section 39 of the Act, which requires it to keep Part 2 of the Act and the Regulations under review and to make recommendations of such changes it considers appropriate to the Secretary of State;
 - the SSRO's opinions and determinations; and
 - the SSRO's issuing of statutory guidance required by the Act.

- 3.3 In relation to the latter point the SSRO is required to issue guidance on determining whether costs are Allowable under qualifying defence contracts. The relevant test of an Allowable Cost is whether it is appropriate, attributable to the contract and reasonable within the circumstances. The guidance on these tests will usefully be informed by evidence provided by the value for money studies.
- 3.5 The products will provide useful research, views and recommendations that should assist both industry and the MOD in securing value for money in defence procurement, for example by highlighting examples of notable practice and behaviour.
- 3.4 The SSRO wishes to make clear that the studies will not be binding on either the MOD or industry. However, outputs from the programme may include updates to the SSRO’s statutory guidance, which both industry and the MOD must have regard to as specified in the Act.
- 3.6 The programme of value for money studies for 2016/17 to 2018/19 is set out in Table 1. Three other study topics are also of interest to the SSRO (Table 2), but are not in the current programme. If time and resource is available we will consider these topics. If these study topics are a priority for stakeholders they may wish to request that the SSRO carries out work in these areas (see page 2, paragraphs 1.5 to 1.7).

Table 1: The programme of value for money studies, 2016/17 to 2018/19

Study title	Purpose	When
The treatment of inflation in single source contracts	How inflation is accounted for can have significant cost implications for multi-year single source contracts. This study will, for example, consider the different use of indices across contracts and review best practice.	2016/17
Wage inflation in single source contracts	Labour is a significant cost in many contracts. This study will look at wage inflation across contractors and in comparison to similar occupations and industries elsewhere in the economy.	2016/17
Overhead rates used in delivery of single source contracts	The Currie Report noted that overhead costs were larger than direct labour costs. This study will research the methodology and assumptions behind rates agreed by the MOD and contractors.	2017/18
Cost of the back office	From 2016 onwards, the SSRO will start to receive information from Qualifying Business Units on back office costs. This study will highlight variations in spend, for example in Finance, HR and IT functions, and set out where there may be potential for efficiencies.	2017/18
Consideration of risk in single source contracts	This study will look at the way that risk is assessed in single source contracts. It will consider the different types of risk, for example programme risk and cost risks, and how these are treated, assessed and agreed in single source contracts (including for example in the cost risk adjustment and risk contingencies).	2018/19
Procurement and contract management processes	Some of the procurement processes currently required may slow down delivery to front line commands, and some of the processes may themselves be inefficient and if addressed could create better value for money. The Currie report noted, “On balance, we believe that achieving better value for money depends as much on improving MOD behaviours as it does on improving contractor efficiency.”	2018/19

- 3.7 The SSRO will individually scope each study within the programme before determining 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 discussion papers, in-depth analytical studies, qualitative research and benchmarking where appropriate).

Table 2: Additional value for money study topics of interest to the SSRO

Study title	Purpose
Effectiveness of Incentives	This study would investigate the range of incentives that impact on value for money within single source contracts, including but not restricted to the incentive adjustment to the baseline profit rate, and identify best practice.
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.
Rework	The SSRO has stated that to demonstrate that re-work is appropriate, attributable and reasonable the contractor will clearly need to be able to measure reliably how much re-work falls into various categories. This study would look the way re-work is recorded, measured, reported and benchmarked to improve the evidence base for judging the allowability or otherwise of such costs.

4. Our approach

- 4.1 The SSRO will ensure that its research and analytical practice is rigorous, robust and fit for the purposes of supporting greater value for money.
- 4.2 Where appropriate the SSRO will draw upon interest in cooperation expressed by industry in the consultation.
- 4.3 Data confidentiality will be of the utmost importance and subject to our duties under the Defence Reform and Data Protection Acts.

4.4 The outputs from this work may 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.

