

Opening letter from Chair, Jeremy Newman



Dear Stakeholders

Welcome to the November edition of the SSRO newsletter, which provides details of the SSRO's work both internally and externally, and sets out our future priorities.

Since the last edition in September, the SSRO has appointed a permanent Chief Executive, Marcine Waterman. Marcine has been the SSRO's full-time Chief Executive since April 2015, having been appointed part-time to the role in September 2014, but was formally appointed permanent Chief Executive in September 2015. The SSRO Board is pleased to welcome Marcine to this role on a permanent basis, and is confident that she will continue the excellent work she has started.

The SSRO launched a consultation following its review of the methodology used for calculating the baseline profit rates for UK single source government defence contracts. At the time of writing, we are still consulting on the proposed new methodology, and I would encourage those of you who have not yet submitted a response to please do so by 20 November 2015.

We have also recently launched a consultation on our proposed programme of value for money studies. The SSRO intends to publish two studies a year, focusing on specific issues that may be impacting on the achievement of value for money in single source contracts, and using a range of evidence to generate comparative management information and defence benchmarks and parametrics. You can read more about this consultation in the newsletter and, once again, I would strongly encourage all of those with an interest to contribute to the consultation by 11 December 2015.

Externally, the SSRO continues its programme of stakeholder engagement. We continue to meet with prime defence contractors and to visit several of their facilities. We are currently planning a programme of presentations and visits to SMEs. We also recently welcomed Lord Currie, the architect of the single source procurement regime, and the Minister for Defence Procurement, Philip Dunne MP, to the SSRO offices.

I hope you find this edition of interest and I look forward to continuing our productive working relationship.

A handwritten signature in black ink, appearing to read 'J. Newman', written over a light blue horizontal line.

Jeremy

Introduction

Since our September newsletter, we have been working across a number of areas, in consultation with stakeholders wherever appropriate, including: developing the qualifying defence contract (QDC) reporting templates; reviewing the database for storage and management of industry data; developing the defined pricing structures (DPS), and publishing the baseline profit rate and compliance methodologies.

We have streamlined procedures to analyse a range of QDCs. We continue to work closely with all parties to the contracts to ensure the procedures and reporting principles are followed and that parties to the contracts are complying with the Regulations and our guidance.

We have engaged with many stakeholders personally through events, workshops, conferences and site visits, and welcome the opportunity to do so.

As always, our answers to questions from industry can be found on [our website](#), and the SSRO helpdesk can be reached at helpdesk@ssro.gov.uk. We would be glad to hear from you.

Please note that the Cabinet Office has given approval for the SSRO to use its abbreviated title in its domain name, which is now therefore 'ssro.gov.uk'. We recently completed the technical work to change to the shortened email addresses in the format 'firstname.lastname@ssro.gov.uk' or 'sharedmailboxname@ssro.gov.uk' (as in the helpdesk email address above). We hope all stakeholders will welcome this small yet significant change. Emails will still be received at the previous addresses until the end of 2015.

Our website address remains as www.gov.uk/ssro.

QDCs

The SSRO continues to monitor and analyse reports of QDCs that have been notified to us. In regularly reviewing our working practices and the functioning of the Regulations, we would like to engage with stakeholders when submitting the first reports for a QDC.

Statutory reporting requirements are set out in the Defence Reform Act 2014 (the "Act") and the Single Source Contract Regulations 2014 (the "Regulations"). Regulation 25(1) requires a Contract Notification Report to be provided for QDCs. The prime contractor has one month from the initial reporting date to submit the contract notification report.

The SSRO has experienced some recent issues with initial contract reporting. We have in some cases only been contacted by the contractor on the day that the Contract Notification Report is due, with the submission of the report put at risk of being delayed. The SSRO has a duty to uphold the deadlines for reporting requirements as a statutory function, and is therefore unable to provide much flexibility on this matter.

We would therefore strongly encourage contractors to make contact with the SSRO at the point the QDC is signed, and well before the due date of the Contract Notification Report. This will provide adequate time for the completion of the report before the due date, and allow for the SSRO's advice and assistance in completing the reports where required. Please see the SSRO's website section on [QDC reporting templates and user guides](#) for further information.

Database for storage and management of QDC data

The SSRO operates a secure repository to enable defence contractors to upload the required QDC or QSC reports, a pilot version of which has been in operation since June 2015. The SSRO had expected a higher volume of QDCs to be notified to us than was the case. This would have allowed a greater number of reports to be uploaded to the system by the conclusion of the pilot in September 2015. Given the low volume of QDCs at the current time, we consider there is benefit in extending the pilot period until April 2016. This will allow us to maximise the learning from the pilot before we procure a long-term solution via an OJEU tender process.

Stakeholder engagement

The SSRO welcomed two high-profile visitors to its offices in October: Lord Currie, architect of the new single source procurement regime through his report *Review of Single Source Pricing Regulations*, and Philip Dunne MP, the Minister for Defence Procurement. The Minister met with the Chairman, Chief Executive and Board Members to discuss the ongoing work programme of the SSRO. He was given a tour of the offices and spoke with staff about issues such as the baseline profit rate and the secure capture and storage of sensitive data.

The SSRO would like to extend its thanks to Lord Currie and the Minister for Defence Procurement for visiting our offices. The visits were much appreciated by the Board and staff of the SSRO.



Referral

Since the last edition of the newsletter, the SSRO received its first referral for an opinion. The SSRO put into practice its published procedures, and engaged with all parties in initial evidence hearings and in reviewing evidence submissions.

When the referral process has reached completion, the SSRO will conduct a 'lessons learnt' exercise both internally and with the external parties to the contract. We then expect to be able to update our practices and procedures accordingly.

We will publish a summary of the opinion on our website in due course.

The Chairman and Chief Executive continue to represent the SSRO at conferences and events. The Chairman delivered an address to the RUSI Defence Acquisition Conference on 9 September, and the [Chief Executive spoke](#) at DSEI on the subject of regulating single source procurement.



The SSRO played an active role at DSEI. The Chairman, Chief Executive, and SSRO staff welcomed visitors from UK industry, the MOD, and international partners keen to understand more about the new UK single source procurement regime.

The SSRO held the second SSRO Senior Stakeholder Forum on 17 September, at the DSEI conference. Issues discussed included the baseline profit rate methodology and experiences of the implementation of the new regime.

We have also held a further meeting of the Operational Working Group, and have continued to meet with prime defence contractors to discuss issues emerging from the introduction of the single source procurement regime, and to visit several of their facilities. These continue to be a useful opportunity to meet industry to discuss our work and the key challenges for the SSRO to consider.

Future work

The next immediate outputs for the SSRO will include:

- publishing the remainder of our DPS templates;
- assessing consultation responses on the review of the baseline profit rate and issuing a response to that consultation;
- reviewing consultation responses to the value for money consultation paper and publishing a response; and
- issuing the first compliance report.

Compliance rating methodology

Our last newsletter informed readers that we had conducted a consultation on the compliance rating methodology and we're considering our response. The SSRO subsequently published its [response to the consultation and the final methodology](#) on our website on 5 October.

Compliance assessments are conducted by recording data available to the SSRO on the MOD's and suppliers' adherence to the Regulations. The compliance rating methodology will be used to allocate the MOD and suppliers a red, amber or green (RAG) rating. The data is stored in a secure database.

The assessments are currently taking place, and will form the basis for the SSRO's first annual compliance report in January 2016. Compliance ratings will only be included in the report when a sufficient number of QDCs has been agreed. Consequently, an additional compliance report may be published later in 2016.

The SSRO has committed to formally notifying any contractor it considers to be non-compliant. The SSRO is also currently providing additional assistance and guidance to contractors who currently have QDCs, to ensure there is no disadvantage for early adopters.

Programme of value for money studies

The Defence Reform Act 2014 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.

The SSRO is proposing to undertake a series of value for money studies, with a potential volume of up to two per year. These studies will focus on specific issues that may be impacting on the achievement of value for money in single source contracts, and will use a range of evidence to generate comparative management information and defence benchmarks and parametrics. The outputs could include: a published report, with key findings; the estimated potential for savings (if appropriate); recommendations to improve value for money; and tools for the MOD and industry to use in future.

The SSRO launched a public consultation on its programme of analytical studies on 30 October. This consultation sets out a list of potential topics and invites views on what the SSRO's priorities for studies should be. The topics set out in the paper include:

- the treatment of inflation in single source contracts;
- pay rates used in delivery of single source contracts;
- overhead rates used in delivery of single source contracts;
- the cost of maintaining facilities;
- the cost of the back office;
- amendments to contracts; and
- the use of pricing methods in single source contracting.

We encourage anyone with an interest in single source defence procurement to submit a consultation response before the close of the consultation on 11 December. Please see the [programme of value for money studies consultation page](#) on our website for more information.

Review of the baseline profit rate

Having conducted a full review of the baseline profit rate methodology earlier this year, the SSRO discussed its proposals, in outline terms, with representatives from industry and government at the SSRO Senior Stakeholder Forum in September.

On 25 September, we launched a consultation on the proposed methodology, which runs until 20 November. You can [submit a consultation response at this link](#).

The most significant proposal is that there should be different baseline profit rates for different types of work. We are consulting on multiple rates and the consultation document sets out six possible work types:

- contract manufacture;
- contract design and development;
- ancillary support services;
- equipment upkeep, maintenance and support (including training);
- capacity provision; and
- IT.

We believe that differentiating by work activity means a more relevant group of comparator companies would be used to calculate each rate.

The second departure from the past is the proposed inclusion of comparisons with the profit achieved by companies headquartered outside the UK. Our initial analysis found that it is more appropriate to calculate the rate by looking at the profits achieved by a range of companies, but we intend to make sure those companies operate in a comparable environment. We are also looking to Western Europe and North America, not just at companies headquartered in the UK, as at present.

Following the consultation, the SSRO Board will meet in December to review the responses and finalise the methodology. Following that meeting, we will publish the final methodology.

We will recommend the new profit rate(s) to the Secretary of State for Defence by 31 January 2016.

What's on the Board's agenda?

Our website provides both the [agendas and minutes](#) from recent Board meetings. The SSRO Board has met six times since the SSRO's formation.

The September 2015 Board meeting discussed: the compliance report methodology; the review of the baseline profit rate methodology; and further papers relating to the SSRO's functions.

The December Board meeting will discuss the responses to the consultation on the review of the baseline profit rate methodology.

Executive Committee and operational issues

SSRO Head of Legal Services, David Galpin, took up his post in September 2015. David is an experienced lawyer with a variety of regulatory experience, and has particular expertise in public law, including public procurement, governance and commercial dispute resolution.



The SSRO also undertook a recruitment drive in October to expand the Regulation Team. We advertised the roles on a number of sites, social media platforms, and through the SSRO's own dedicated [careers website](#). We received a large number of high quality applications and expect to recruit in the near future.

Our forward look

NOVEMBER		
Week of 16 November	Audit Committee	Consultation on baseline profit rate methodology closes – 20 November 2015
	Referrals Committee	
Week of 23 November	Executive Committee	
Week of 30 November	Regulatory Review Committee	
DECEMBER		
Week of 7 December	Board meeting	
Week of 14 December		Publish profit rate methodology