

Opening letter from Chair, Jeremy Newman



Dear Stakeholders

It has been an eventful few months, and this newsletter gives details of the work we have been doing both internally and externally since the last edition.

We can reflect on the significant steps we have taken forward, including publishing:


- guidance on determining penalty amounts;
- guidance on adjustments to the baseline profit rate;
- a suite of reporting templates and user guides; and
- guidance on our procedures for considering referrals.

We have also put in place all necessary governance procedures and hosted our first Senior Stakeholder Forum and industry working group events, to ensure regular engagement with contractors and the government.

We have sent out our Corporate Plan for consultation and we would value your feedback on our strategy for the next three years. It sets out how we intend to meet our objectives and fulfil our statutory obligations, and the work we are doing to make the SSRO the expert guardian and adjudicator of the single source procurement regime.

I have had the opportunity to meet many of you in person to receive your feedback on our initial work and to discuss the issues you see as key challenges for the SSRO to tackle. We have more meetings and visits scheduled over the next several months and I look forward to engaging with you further.

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

Yours,

Jeremy

Introduction

The first qualifying defence contract under the new regime was signed in April 2015. We are now working closely with all parties to the contract to ensure the new procedures and reporting principles are followed.

Since our January newsletter, we have been working across a number of areas, in consultation with stakeholders wherever possible, including: guidance, reporting templates, industry data management, and SSRO corporate documents. These are discussed in more detail over the following pages.

Guidance on adjustments to the baseline profit rate

The Defence Reform Act 2014 provides for the SSRO to issue guidance in relation to the following adjustments to the baseline profit rate:

- cost risk adjustment;
- profit on cost once;
- SSRO funding adjustment;
- incentive adjustment; and
- capital servicing adjustment.

In accordance with the Single Source Contract Regulations 2014, the SSRO funding adjustment is set at zero until 2017. We will develop a methodology to inform the SSRO funding adjustment and consult on it in 2016.

Three of the remaining four adjustments are principles-based, whereas profit on cost once provides a more prescriptive methodology. Our draft guidance on adjustments was issued for public consultation in February 2014. 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](#).

Guidance on determining the amount of penalty

The SSRO has also published guidance to be used by the Secretary of State when determining the amount of penalty to issue for contraventions to the Regulations for qualifying defence contracts and qualifying sub-contracts.

The Act and Regulations are prescriptive in identifying what constitutes a contravention and the maximum penalty amounts for the contravention. Therefore, the

SSRO's guidance specifically focuses on the factors to be considered when determining the amount of penalty. The aim of this guidance is to ensure that any penalties issued by the Secretary of State are fair and proportionate, while acting to deter non-compliance with the Act and Regulations.

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. In such cases the SSRO will consider the following factors in its determination:

- a) efforts made to comply; and
- b) familiarity with the new legislation, Regulations and guidance.

This transitional arrangement will remain in place until 1 April 2016.

Our draft guidance was issued for public consultation in February 2015 and the final version of the guidance was published on 26 March 2015. The guidance is available on our [website](#).

Referrals procedure

Under the Act, the SSRO has a duty to issue opinions or legally binding determinations in response to referrals from the Ministry of Defence or from a contractor.

Examples of determinations that may be sought by making a referral to the SSRO include adjustments to contract profit rate calculations and determinations on the extent to which a cost is an 'allowable cost' for a qualifying defence contract. Under the Act, the SSRO's decisions are final.

We have issued guidance that sets out the role and authority of the SSRO, the requirements for a referral to the SSRO, the criteria that the SSRO will apply to determine whether it is appropriate for the SSRO to accept the referral, and the policies and procedures that the SSRO will follow in discharging its functions under the Act and Regulations.

The SSRO has established a Referrals Committee, responsible for considering all such matters as and when they arise. The Committee will consist of three persons appointed by the Chair of the SSRO or any other member who has been authorised (generally or specifically) for that purpose. At least one of the members must be a person who is not a member or employee of the SSRO. We have recently recruited five panel members that we can appoint to be the independent member of the Referrals Committee.

Reporting templates and user guides

The SSRO has created and published report templates in accordance with the requirements contained within the Act and Regulations. This is the first time reporting requirements have been a statutory obligation for qualifying defence contracts and qualifying sub-contracts. Therefore the SSRO has also produced user guides 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 published our final set of user guides on 11 May 2015 on our **website**.

We have also set up a helpdesk to allow contractors and the MOD to contact us if they have any queries on the documents. The contact email is: **helpdesk@singlesourceregulationsoffice.gov.uk**.

The types of questions we have received so far have varied from requests for training and documents, to more technical queries such as amendments to existing contracts, definitions of Qualifying Business Units, the use of threshold amounts and the POCO adjustment. If you have any questions about the new arrangements or our documents, please do contact us.

Database for storage and management of data

Following a competitive tender, we have engaged Landmark Information Group, an expert information management solutions supplier, to develop a pilot for a system to enable us to collate, process and manage the data that will be provided by defence industry suppliers reporting on qualifying defence contracts and qualifying sub-contracts. The database will be used by SSRO for analysis and by the MOD for analysis and to assist in contract management, and as a source of benchmark and comparative data for future contract negotiations. Industry and MOD supported our proposal to outsource the management of this data to a secure external specialist provider.

The pre-pilot version of the database was launched on 30 April and is now available for defence industry suppliers to securely upload contract and supplier reports as required by the Regulations. The pilot version of the database is on schedule to go live by 30 June 2015 and the specification of requirements document for this phase have been agreed. We intend to procure a permanent system via an OJEU tender process which will begin in autumn 2015.

Corporate Plan

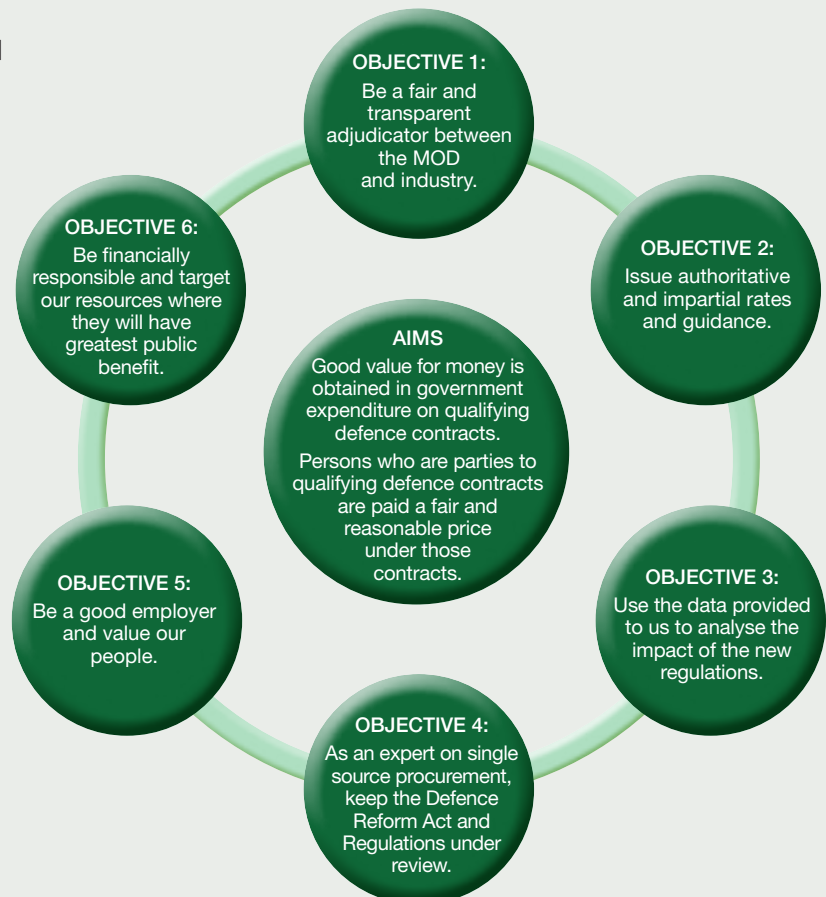
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SSRO
Single Source
Regulations Office

SSRO Corporate Plan: 2015-2018

We have shared our draft Corporate Plan with many of our stakeholders and would welcome their feedback, before it is published in late June. The Corporate Plan outlines our aims and objectives for the next 3 years, and puts forward proposals of how we will achieve them. We have identified six key objectives, shown in the diagram.



Stakeholder engagement

The SSRO Board held its first Senior Stakeholder Forum on 5 February 2015, with the aim of bringing 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. We were pleased with the level of engagement and feedback from industry and the MOD and have taken industry concerns on board in order to address them throughout our work. The SSRO intends to host Senior Stakeholder Forum meetings biannually, with the next scheduled for September 2015.

In addition to the Senior Stakeholder Forum, we intend to host regular industry working groups to engage on practical issues. We have established an operational working group with industry representatives, the MOD and our outsourced specialist secure data management partner to discuss and put into place the arrangements for the collection of the reporting data. The first industry working group was held at the SSRO offices in London on 24 March 2015 and was well-received by industry. The next meeting is scheduled for 16 June 2015.

Future

The next immediate outputs for the SSRO will include:

- publishing our principles and statutory guidance on the Defined Pricing Structure;
- commencing our fundamental review of the methodology for calculating the baseline profit rate and capital servicing adjustments; and
- finalising the approach to the SSRO funding adjustment in autumn 2015.

Rates relevant to the contract profit rate

We are currently developing a new approach to assessing and determining the baseline profit rate and capital servicing adjustments. We intend to consult on our findings in the autumn. The SSRO will review a number of areas including the:

- principle of comparability;
- exclusion of companies under price regulation;
- inclusion of companies which are UK based but whose activities are predominately overseas;
- treatment of R&D tax credits; and
- use of simple rolling averages.

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.

The DPS will be developed 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.

We will conduct joint meetings with contractors and the MOD to determine the DPS for initial qualifying defence contracts as they arise over the next year, consulting with wider industry when determining DPS for initial qualifying defence contracts to ensure industry-wide suitability as they arise.

What's on the Board's agenda?

Our website provides both the **agendas and minutes** from recent Board meetings. The SSRO Board has met five times since the SSRO's formation.

The February Board meeting discussed the content of the Corporate Plan, legal issues, and SSRO core functions, including corporate and annual budgets and the SSRO's expenses policy. In June, the Board will discuss the Annual Report and Accounts 2014/15, and various papers relating to the SSRO's core functions.

Executive Committee and operational issues

We have appointed two further Directors. Our Director of Corporate Resources, Neil Swift, has been in post since April 2015 and our Director of Regulation will be in post from July 2015.

Our forward look

JUNE		
Week of 1 June	Executive Committee	Referrals Committee
Week of 8 June	Induction – Referral Panel Members	ADS Defence SME Committee Meeting – Chief Executive presentation
Week of 15 June	Regulatory Review Committee	Audit Committee
Week of 22 June	Board Meeting	Senior SSRO and MOD forum
Week of 29 June	2014/15 Annual Report and Accounts signed	