

Opening letter from Chair, Jeremy Newman



Dear Stakeholders

Welcome to the February edition of the SSRO's newsletter.

This is my last letter as Chair since, as some of you may be aware, I will be standing down as Chair of the SSRO next week. I was appointed as the organisation's first Chair in July 2014, with the task of setting up the SSRO following the passage of the Defence Reform Act in May of that year. Since that time, the SSRO has become fully operational and has achieved a great deal. Our first statutory aim is to ensure good value for taxpayers' money, and we have so far identified c.£60 million of potential savings – equivalent to the SSRO's running costs for at least the next decade.

We have also recently announced a new method for calculating the profits that companies are allowed to make, published our first annual Compliance Report, completed the setting of new pricing templates and become recognised as an organisation that can hear from whistleblowers. Alongside our earlier achievements set out in previous newsletters, we have much to be proud of.

With the SSRO's role now a recognised part of defence procurement and with these milestones achieved, I have taken the difficult decision to move on and focus on my other roles in the private, not-for-profit and public sectors, including as a non-executive Board member of the Crown Prosecution Service, the Deputy Chair of the Government Legal Department and a member of the Council of the Open University. I anticipate that one of the SSRO's existing non-executive Board members will act as interim Chair of the SSRO whilst the MOD seeks a permanent replacement.

This edition of the newsletter contains updates on the SSRO's final methodology for calculating the baseline profit rate and capital servicing allowance for 2016/17; the publication of the first annual Compliance Report; and the SSRO becoming a 'prescribed person' to whom protected disclosures may be made by whistleblowers in industry and the MOD and third parties. It also includes the good news that the SSRO has become a member of the UK Regulators Network (UKRN) and is looking forward to engaging with the other regulators in the forum to share approaches and best practice.

It has been a great privilege to Chair the Single Source Regulations Office, managing its establishment and growth into an effective organisation that is capable of delivering real change. I am delighted that, under my Chairmanship, the SSRO now stands as the leading independent voice on single source Defence procurement. I am proud of what the SSRO has achieved in a short space of time and am confident I leave a strong team to take this work forward.

Yours,


Jeremy

Introduction

Since our November newsletter, we have made progress in a number of areas including: reviewing the methodology for calculating the baseline profit rate and capital servicing allowance; publishing the SSRO's first annual Compliance Report; developing the defined pricing structure (DPS); providing a formal opinion on a matter referred to us; updating SSRO answers to questions asked; and reviewing the SSRO's governance procedures.

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 happy to hear from you.

2016/17 Contract Profit Rate

Since the last edition, the SSRO has published its final methodology for calculating the baseline profit rate and capital servicing allowance for 2016/17, following an eight week consultation that attracted a good deal of interest from industry and many helpful contributions. On the same date, we published our response to the points raised in the consultation alongside a document containing all the submissions received.

The methodology brings several benefits, including:

- a more appropriate reference group;
- an international group of comparator companies;
- more appropriate corporate bonds used in capital servicing rates;
- simpler and more transparent negative working capital rate calculation;
- transparency in the form of a published list of criteria used to select comparable companies, and the list of comparable companies used in the reference group; and
- an established approach – based on that set out by the OECD and supported by HMRC.

The SSRO has now recommended a baseline profit rate and the capital servicing rates for 2016/17 to the Secretary of State, and the final rate is expected to be published in the London Gazette by 15 March 2016.

Following this announcement, the SSRO will publish the profit rates (including for the 'develop and make' and 'provide and maintain' activity types described within the methodology).

We will also publish the list of companies in the comparator reference groups after the Secretary of State's announcement.

The SSRO has amended the Contract Profit Rate Guidance on the adjustments to the baseline profit rate. Proposed changes are included in Step 2 (cost risk adjustment), Step 6 (capital servicing adjustment) and the section on 'Opinions and Determinations'. A five week consultation on this guidance was launched on 25 January 2016, which closes on 29 February 2016. Following a review of consultation responses, the SSRO will finalise and publish the guidance on the adjustments to the baseline profit rate, prior to the introduction of the 2016/17 rates on 1 April 2016.

More information can be found [on our website](#). Thank you to all who responded to the initial consultation, and we would encourage you to consider the SSRO's new consultation on the guidance for applying the contract profit rate.

QDC Compliance

The SSRO published its first annual Compliance Report on 28 January. The report comments on compliance by both industry and the MOD with the Defence Reform Act and Single Source Contract Regulations between 18 December 2014 and 31 December 2015. Given the small number of QDC reports received and analysed during this time, the first Compliance Report is a narrative report, focusing on compliance trends and themes, as well as including wider observations on how the Framework has been functioning. The first Compliance Report can be found [on our website](#).

The report highlighted several recurring issues that the SSRO has observed in the first year of its compliance assessments. This included issues related to the calculation of the contract profit rate such as:

- contracts where the CSA rates adjustment were incorrect;
- contracts where the POCO adjustment was not applied correctly;
- the non-availability of information and explanation to support the risk adjustment; and
- unclear or disputed pricing types for the contract.

Recurring issues relating to Allowable Costs include:

- limited supporting information, descriptions or explanation provided for labour rates applied to QDCs; and
- the inclusion of non-Allowable Costs in the contract, such as costs due to faulty workmanship. However, contractors have often been willing to remove non-Allowable Costs where the SSRO has raised such issues with the contractor.

The SSRO is currently monitoring 18 Qualifying Defence Contracts (QDCs) and one Qualifying Sub-Contract. We are committed to helping contractors and the MOD meet their obligations, rather than simply monitor compliance and report on it afterwards. Please contact our [helpdesk](#) if you require any further information or assistance in meeting the reporting requirements. Further information can also be found [on our website](#).

In addition, the SSRO regularly publishes [SSRO Answers](#) on its website, which provide clarity to parties involved in a qualifying defence contract or qualifying sub contract regarding questions that have been submitted to the SSRO helpdesk. The document was last updated in January 2016, and includes answers to the most recently asked questions, including:

- How do contractors notify changes to a QDC/QSC post-contract signing?
- How does the SSRO handle confidential information? Who in the SSRO will have access to this information? Can it be requested under a Freedom of Information (FOI) request?
- Who will have access to QDC and QSC reports?

Whistleblowing powers

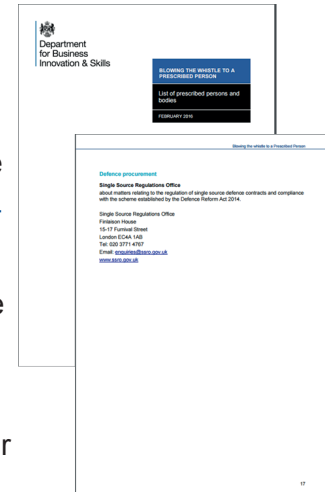
On 1 February 2016, the Public Interest Disclosure (Prescribed Persons) Order 2014 was amended to list the [SSRO as a 'prescribed person'](#) to whom protected disclosures may be made under the Employment Rights Act 1996.

The SSRO can consider and act on 'qualifying disclosures' related to single source defence procurement. This will allow the SSRO to strengthen its oversight of the single source defence procurement regime by receiving concerns of malpractice or wrongdoing by employees of industry, the MOD and third parties.

A 'qualifying disclosure' is a report of malpractice or wrongdoing – which could include a criminal offence, failure to comply with legal obligations, health and safety breaches, corruption or deliberately concealing information. The person making the disclosure must reasonably believe that their concern is true and that the disclosure is in the public interest; substantive evidence is not required.

Contacting the SSRO promptly can help end wrong behaviour, minimise the cost of remedial action, lessen the risk of claims and legal action, maintain safety and the credibility of UK single source procurement.

Provided the SSRO's Whistleblowing Policy is followed, the person making the disclosure has the right to not be subjected to any detriment by their employer (or by another worker or agent of the employer) because they have made the disclosure. The SSRO will respect the whistleblower's preferences regarding confidentiality and anonymity.



The process for raising such concerns, and the steps the SSRO will take to ensure the whistleblower is protected, is set out in the [SSRO's Whistleblowing Policy](#). To raise a concern of malpractice or wrongdoing in single source defence procurement, you should contact the SSRO at the details below:

Email: directorofinvestigations@ssro.gov.uk

Telephone: 020 3771 4792

Address:

Director of Investigations and Compliance,
SSRO, Finlaison House, 15–17 Furnival Street,
London, EC4A 1AB

We would also welcome stakeholders' assistance in highlighting the SSRO's new responsibilities, and how a concern can be raised.

SSRO announced as new member of the UK Regulators Network



The SSRO is delighted to announce that it is now a member of the [UK Regulators Network \(UKRN\)](#). Cathryn Ross, UKRN Chair, said:

"I am very pleased to welcome the SSRO as a new member to the UK Regulators Network. The purpose of UKRN is for regulators to work together to maximise coherence and shared approaches in the interests of consumers and the economy. The SSRO is a valuable addition and brings extensive skills and knowledge, I am sure they will equally benefit from joining an already thriving network."

We look forward to engaging with other UK regulators through this forum, in order to ensure effective cooperation between sectors and to share approaches and best practice.

Board away day at the Defence Academy, Shrivenham

The SSRO Board members attended a two-day introductory course at the Defence Academy, Shrivenham on 13-14 January 2016.

The programme included sessions on the Royal Navy, British Army, and Royal Air Force, giving a helpful insight into the requirements of our armed forces as 'end users', the Acquisition System Operating Model, and issues regarding urgent operational requirements.

Board members heard from and engaged with a number of representatives from the Royal Navy, British Army, Royal Air Force, DE&S, the wider civil service, industry and academia, which provided a helpful insight into the various requirements of the different parties engaged in the acquisition process.



Once again, the SSRO would like to extend its sincere thanks to the Defence Academy and all those who contributed to the excellent programme, in particular Kathy Clarke, Mark Jenkins, and Wing Commander Colin Hill.

Stakeholder engagement

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

The SSRO has continued to meet with prime defence contractors to discuss specific issues on QDCs, issues emerging from the introduction of the single source procurement regime, and to visit several of their facilities. We continue to monitor and analyse reports for the QDCs of which we have been notified, and work closely with all parties to the contracts to ensure the procedures and reporting principles are followed and compliance with the Regulations and our guidance.

The Chairman and Chief Executive have represented the SSRO at several conferences, events and site visits. Most recently, the Chairman attended the British Naval Equipment Association's annual dinner as a guest of honour, and the Chief Executive participated in a roundtable discussion hosted by Reform on securing value for money in defence procurement and the implementation of the SDSR.

The SSRO's Senior Stakeholder Forum will meet again in late March. This is a useful opportunity to bring together individuals from industry and the MOD and discuss issues of mutual interest.

Please do visit our website, follow us on [Twitter](#), or join us on [LinkedIn](#) and [Facebook](#) to find out more about the SSRO, our publications and our work.

Opinions and determinations guidance

Following the publication of our first opinion, and after engagement with stakeholders, we have reviewed our referral guidance and implemented a number of key changes.

Changes include: separating out our referral guidance so that the referral processes for opinions and determinations are outlined in separate documents; altering the sequence of our referral processes for opinions and determinations; and simplifying the language of the document where appropriate to do so. The two new guidance documents are due to be published on the SSRO's website on Friday 5 February.

Future work

The next immediate outputs for the SSRO will include:

- reviewing the SSRO's Single Source Cost Standards with a consultation in May and June and final guidance published by the end of June 2016;
- undertaking work to inform the SSRO's review of the Regulations, with a view to engaging with stakeholders on general themes in summer 2016 and submitting final recommendations to the Secretary of State in May 2017; and
- updating the SSRO's published reports and user guides, for use by contractors in submitting the information required under QDCs.

What's on the Board's agenda?

Our website provides both the [agendas and minutes](#) from recent Board meetings.

The SSRO Board has met ten times since the SSRO's formation.

The December 2015 Board meeting discussed: the responses to the consultation on the review of the baseline profit rate methodology; the annual Compliance Report; the SSRO's organisational structure; and corporate performance.

The January 2016 meeting considered the baseline profit rate and capital servicing allowance for 2016/17; information assurance; and the SSRO's new procedures for considering information from whistleblowers.

Executive Committee and operational issues

Philip Davies, Director of Regulation, resigned from the SSRO towards the end of last year. Following his departure, we have undertaken a process of restructuring and some additional recruitment in order to maximise the operational capacity of our teams.

Ian McPherson will formally be joining the SSRO in March as Director of Investigations and Compliance. Ian comes with a wealth of experience of army procurement, having served in the British Army as a logistician and rising to the rank of Lieutenant Colonel. Following his Army career he has held several posts in the private sector as Commercial Director and was most recently a Director at BDO. He is a guest lecturer in smart procurement at Cranfield University.

Matthew Rees will also join the SSRO in March as our Director of Analysis and Reporting. Matthew gained a BSc in Economics at the London School of Economics, qualified as a Chartered Accountant (FCA) at KPMG, and later specialised in business valuations at KPMG Corporate Finance where he gained his Chartered FCSI status. During his subsequent public service career Matthew has been an adviser to the UK Competition Commission and in his most recent post at the NAO, he has built a new team focusing on 'Value for Money' reviews of government corporate finance transactions since 2014.

Our forward look

Week of 8 February	Executive Committee	
Week of 29 February	Audit Committee	
Week of 7 March	Executive Committee	
Week of 14 March	Senior Stakeholder Forum	
Week of 21 March	Secretary of State to publish baseline profit rate and capital servicing rates in London Gazette	Board Meeting
Week of 28 March	SSRO publishes guidance on the Contract Profit Rate for 2016/17	
Week of 4 April	SSRO to publish 2016-19 Corporate Plan	