

Board members present:

George Jenkins (Chairman)
David Johnston
Marta Phillips
Terence Jagger
Marcine Waterman (Chief Executive)
Neil Swift (Director of Corporate Resources)
Ian McPherson (Director of Compliance and Investigations)
Matthew Rees (Director of Analysis and Reporting)

Others present:

Malcolm Botting (Head of Governance)
David Galpin (Head of Legal)
Colin Sharples (Head of Regulatory Policy) (item 4 - 9)
Simon McCullough (Senior Policy Manager) (items 8 and 9)
David Pottruff (VFM Manager) (item 7)

1. Welcome, apologies, announcements and declarations of interest

- 1.1. The Chairman welcomed members to the 14th meeting of the Board.
- 1.2. Apologies had been received from Jane Attwood, who had reviewed the papers and provided comments to the Chairman. Jane Attwood had announced her intention to resign as a non-executive Board member of the SSRO, with effect from 31 March 2017.
- 1.3. **The Board delegated to the Chairman the authority to appoint a Chair and members of the Regulatory Review Committee.**

<p>There were no declarations of interest.</p>

2. Minutes of 13th meeting of the Board and action tracker

- 2.1. The Chairman introduced the minutes of the Board meeting held on 23 January 2017. One action from the meeting was recorded on the separate 'action tracker', for the Chief Executive to consider bringing forward the stakeholder engagement strategy to the March 2017 meeting. The Executive Committee had considered whether this was possible within the work programme and concluded that it was not, due to pressures on resources relating to the review of the legislation and other priorities. The report would be presented to the May 2017 Board meeting, brought forward from the June 2017 meeting.
- 2.2. The minutes of the 13th meeting of the Board were approved as a correct record.

3. Chief Executive's report

- 3.1. Marcine Waterman, Chief Executive, presented her report to the Board, which provided an update on items not included elsewhere on the agenda.

- 3.2. The Chief Executive updated the Board on the SSRO's stakeholder engagement since the last meeting, including meetings with the MOD and ADS, site visits and meetings with industry and other external stakeholders.
- 3.3. The Board discussed recent engagement with stakeholders, including the Senior Stakeholder Forum held on 8 March. The Chairman would write to the attendees of the forum setting out the SSRO's proposed actions in response to the points made at the meeting. The SSRO had also hosted a meeting of the Operational Working Group on 31 January.
- 3.4. There had been positive engagement with stakeholders in the ongoing review of legislation. The SSRO had received consultation responses from a range of organisations, and several workshops had been held throughout the consultation. Stakeholders had asked the SSRO to inform them of responses to the consultation and progress made, in advance of the publication of final recommendations. The Board discussed communications with the MOD and industry, including outstanding compliance issues and the SSRO's proposed communications protocol.
- 3.5. The SSRO had commenced a study on risk, which was being developed under a new process that ensured increased engagement with stakeholders throughout the production of the report. The revised process provided the MOD and prime contractors with an opportunity to comment on the findings and recommendations in advance of the SSRO Board's consideration of the final report in September 2017.
- 3.6. A second staff survey had been undertaken in February 2017, using a sub-set of the questions used across the civil service to provide a comparable benchmark, with amendments made to ensure it addressed the issues in an organisation the size of the SSRO. The Board congratulated the executive on the response rate, and noted that the concerns of staff should be addressed. The executive would consider the issues raised and develop an action plan to address them. **Action:** Marcine Waterman.
- 3.7. At its meeting on 2 March 2017, the Executive Committee had agreed to add an additional band to the existing salary banding between the support and analysis levels, to facilitate recruitment and ensure all staff pay levels fell within defined ranges. The Board noted the Executive Committee's decision.

The Board:

- a) **noted the information provided in the report, regarding stakeholder engagement, publications and events, stakeholder engagement on the review of the legislation, the risk study, the staff survey and salary structure.**

4. Chairman's feedback – first 60 days

- 4.1. The Chairman provided an overview of the feedback from his first 60 days at the SSRO. In this period, he had met with senior stakeholders from a range of relevant organisations, including regularly with the Minister for Defence Procurement. He had sought to understand the SSRO's role and the environment in which it was operating.
- 4.2. There had been positive feedback, including that the SSRO's staff were professional and that the organisation was consistent and delivering in difficult circumstances. There was also an acceptance of the SSRO's role and the importance of its functions.
- 4.3. The Chairman had also however received a general impression that the style and tone of the organisation needed to change and that its relationships with its key stakeholders should be reset. It should develop a style that was appropriate, without representing a challenge to its independence and authority. It should also be closer aligned with the founding legislation, as well as the outputs of its stakeholders – seeking the right product at the right price at the right time.
- 4.4. The Board discussed the Chairman's feedback, and specifically comments from industry about the SSRO's focus between the baseline profit rate and allowable costs, and the exploitation of data.

The Board:

- a) **Noted the Chairman's presentation.**

5. Communications Strategy

- 5.1. Marcine Waterman, Chief Executive, introduced the draft Communications Strategy, which aligned with other SSRO documents including the Corporate Plan, Communications Protocol and the Stakeholder Engagement Strategy. The strategy supported the aim of improving communications with the SSRO's stakeholders, and set out the objectives of the SSRO's communications and the method by which they would be achieved. It also provided a series of core messages for the SSRO to deliver.
- 5.2. The Board welcomed the opportunity to discuss the strategy, and provided views on the SSRO's media presence and the resources currently attributed to external communications. The SSRO engaged the services of an external communications advisor via an agency arrangement (under a Crown Commercial Services framework agreement), which allowed for a flexible approach, drawing down the level of support as required. Several options were discussed for the resourcing of communications work in future.
- 5.3. Board members agreed to provide comments on the drafting of the strategy subsequent to the meeting. The final version of the strategy would be the basis for communications action over the course of the next year.

The Board:

- a) considered and noted the draft SSRO Communications Strategy.**

6. Implications of Brexit

- 6.1. Colin Sharples, Head of Regulatory Policy, presented an overview and update following the referendum vote to leave the EU. The Board had been provided with a paper on this issue in September 2016 and had asked for a fuller briefing after six months. The report set out developments over the last six months that impacted on the UK defence industry and the MOD and UK military.
- 6.2. The Board discussed the issues raised in the paper, including emerging views and priorities from the defence industry; the financial impact; 'Brexit' priorities and what this meant for the defence industry; and the political and parliamentary process for exiting the EU. It considered in particular the concerns of industry relating to the customs declaration system.
- 6.3. The Board requested that the executive should continue to monitor the issue, and report back in 6 months' time. **Action:** Colin Sharples.

The Board:

- a) noted and commented on the note at Appendix 1, setting out the issues and developments since the first overview provided to the Board in September 2016; and**
- b) agreed that a further update should be provided to the Board in September 2017 when negotiations between the UK and the EU would be underway. There may be greater detail at this date on the potential trading and customs arrangements that might apply after the UK leaves the EU, and the implications of this for the UK defence industry.**

7. Calibration of profit rate stakeholder feedback

- 7.1. Matthew Rees, Director of Analysis and Reporting, introduced a report updating the Board on feedback received from stakeholders on the discussion paper on developing the SSRO's approach to calibrating profit rates in single source contracts. The Board had considered this paper in January 2017, and it had subsequently been shared with the MOD in January and members of the SSRO's Senior Stakeholder Forum, HM Treasury and UK Government Investment (UKGI) in early February.

- 7.2. The SSRO had received a helpful set of written comments from stakeholders, and attendees at the SSRO's Senior Stakeholder Forum had been asked to consider two questions relevant to the work. An updated version of the report was being prepared, which would incorporate the stakeholder feedback received, with a new section on next steps. This would feed into the SSRO's ongoing work on risk and Allowable Costs.
- 7.3. The Board welcomed the reflection and discussed specific points raised by stakeholders. Many respondents raised issues about measuring the intensity of capital employed by defence contractors and the challenge this posed to using return on capital employed as a cross-check for contract profits. This was potentially an area where more substantive work by the SSRO would be useful. The Board welcomed the proposal to update the paper with stakeholder comments as the basis for a continuing conversation on these issues through the SSRO's forward work programme.

The Board:

- a) noted the engagement undertaken on the discussion paper since its last meeting (section 4);**
- b) noted the feedback received from stakeholders (section 5); and**
- c) considered the proposals for progressing the work (section 6) and delegate authority to the Chairman and Chief Executive for agreeing a final report for dissemination to stakeholders, or wider publication if thought desirable.**

8. Corporate Plan – feedback from consultation

- 8.1. Marcine Waterman, Chief Executive, presented a report on the Corporate Plan for 2017-2020. Following discussion at the Board meeting on 23 January 2017, the Corporate Plan had been drafted and issued to the MOD and ADS on 14 February 2016 for consultation.
- 8.2. The Chairman had set out a new strategic vision for the organisation which impacted on the work and activity set out in the draft Corporate Plan and the SSRO's approach to it. The SSRO's Executive Committee and other senior staff were planning throughout March and April how best to give effect to this new strategic vision and were considering how to address any implications for the current resources as well as skills or capacity gaps. The Corporate Plan was now being redrafted to reflect this, as well as feedback received from the MOD and ADS.
- 8.3. A change was therefore required to the timetable for the production of the Corporate Plan, which would be postponed to the end of May 2017. The final Corporate Plan would be put to the May 2017 Board meeting and subsequently formally submitted to the MOD, as required by the Framework Document, and then published on the SSRO's website.

The Board:

- a) noted the consultation response received from ADS and the MOD;**
- b) noted the amended timetable for publication of the Corporate Plan; and**
- c) noted that a revised draft of the Corporate Plan would be provided to the Board at its 24 May 2017 meeting.**

9. Feedback from staff planning event

- 9.1. Simon McCullough, Senior Policy Manager, presented slides setting out the outcome of the senior staff planning meeting on 27 February 2017. The discussion had considered the environment in which the SSRO operated, the Chairman's vision for the organisation, and the potential focus for the organisation and the prioritisation of work streams.
- 9.2. The Board discussed the output from the meeting and, among other points, encouraged the executive to consider whether any of the workstreams could be dropped or conducted less frequently, in order to deliver its priorities under the current budget and resource pressures. A second planning session was planned for the day after the Board meeting, focusing specifically on work and resource planning and allocation. The executive would consider the points made by the Board at this planning session, and work with the Board to develop a Corporate Plan that energised the organisation.

The Board:

- a) noted the presentation.**

10. Budget for 2017/18

- 10.1. Neil Swift introduced the report, which presented an update on the 2017/18 budget following the submission of a revised proposal to the MOD in February 2017. The MOD had now approved Grant In Aid funding of £5.770 million for 2017/18.
- 10.2. While the core budget remained unchanged, the increased funding for additional posts and other expenditure that had been agreed, plus the opportunity afforded by recent vacancies, would now be considered by the Executive Committee in line with the revised date for publishing the Corporate Plan.
- 10.3. Following the Board discussion, the SSRO would write to the MOD. The letter would state that the budget was based on the Corporate Plan and delivery of the SSRO's objectives, and that the agreed additional posts would be funded in future years. Opportunities for efficiencies, for example as a result of DefCARS, would be explored to ensure the SSRO continued to provide value for money.

The Board:

- a) approved the 2017/18 proposed budget; and
- b) noted plans to incorporate an update on the utilisation of the additional funds in the Corporate Plan and through regular corporate performance reporting.

11. Annual review of Board effectiveness

11.1. The Chairman introduced the review of the Board effectiveness. An annual review of Board effectiveness was required by the SSRO's Corporate Governance Framework. In conducting the review, the Chairman had held individual appraisal discussions with each non-executive member and separate discussions with each executive member of the Board. The review also considered the conclusions of the Audit Committee's report to the Board on the SSRO's governance and the Committee's own effectiveness, as well as the provisions within relevant government documents.

11.2. There were four recommendations from the review, including that there should be a disclosure in the Governance Statement of the Annual Report and Accounts of the issues and action taken in November and December 2016, regarding the temporary minority of non-executive Board members and the absence of a Chairman. The recommendations that resulted in a change to the Corporate Governance Framework would be factored into the annual review of governance documents and be brought to the Board for approval in December 2017, unless otherwise agreed.

The Board:

- a) approved the recommendations from the Board effectiveness review 2017.

12. Corporate Performance Report

12.1. Neil Swift, Director of Corporate Resources, presented the regular Corporate Performance Report to the Board. The report described how the organisation was delivering against its corporate priorities. The report set out all relevant matters relating to the SSRO's performance, including progress against key performance indicators, budgetary updates and the delivery of corporate priorities with associated objectives and tasks.

12.2. The format of the Corporate Performance Report would be updated in line with the new Corporate Plan. The Board would be presented with an example report at its next meeting. **Action:** Neil Swift.

The Board:

- a) noted the progress to date.**

13. 13 March 2017 Audit Committee minutes

- 13.1. Marta Phillips presented the minutes of the Audit Committee on 13 March 2017. The Committee had welcomed Terence Jagger as a new member at the meeting.
- 13.2. The report from the Director of Corporate Resources showed that finances were in line with expectations and that the DefCARS2 system had received security accreditation. On risk management, the items requested at the Committee's previous meeting had been dealt with, and the risk appetite for the organisation remained low.
- 13.3. The Committee had considered the 9 month annual report and accounts and was pleased to note that the NAO had raised no issues with progress so far. The Committee was pleased to note the substantial assurance received from internal audit on of the review of key financial contracts. It considered the proposed internal audit plan for 2017/18 and suggested that two of the assignments should take less than 10 days each, with the time saved used to review the referrals process.

The Board:

- a) noted the draft minutes.**

14. 23 February 2017 Regulatory Review Committee minutes

- 14.1. Marta Phillips presented the minutes of the Regulatory Review Committee on 23 February 2017. The Chair of the Committee, Jane Attwood, announced that it would be her last meeting. She welcomed Marta Phillips to her first meeting, and the Committee thanked the outgoing Chair.
- 14.2. The Committee received an update on the implementation of DefCARS2, which was on track, and discussed contingency arrangements. Staff had been thanked for keeping the project on track and budget.
- 14.3. The Committee also received an update on the review of the legislation, and encouraged the executive to consider involving all NEBMs in discussion on the review at an earlier stage than the Board meeting in May. A Board workshop on the review was subsequently planned for 19 April.

The Board:

- a) noted the draft minutes.

15. 6 February 2017 Referrals Committee minutes

- 15.1. Terence Jagger presented the minutes of the Referrals Committee on 6 February 2017. There had been several subsequent meetings of the Committee since that time, to discuss a referral for an opinion. The parties had agreed, and the Committee's role was to decide whether the shared view was right or not.
- 15.2. It had been a constructive meeting, and support to the Committee had been exemplary throughout. The Committee had now agreed its final opinion, which had been issued to the parties with no negative feedback.
- 15.3. An anonymised version was being prepared for publication, and the Committee had asked for further changes to the anonymised version at its most recent meeting.

The Board:

- a) noted the draft minutes.

16. Future Board agendas

- 16.1. The draft agendas for the Board meetings in May 2017 and June 2017 were presented to the Board.

The Board:

- a) Commented on the draft agendas.

17. Any other business

- 17.1. There was no other business.

18. Private session

- 18.1. The Chairman invited all attendees to leave the Board meeting, other than the non-executive members, for a discussion on the Chief Executive's performance.
- 18.2. The Chairman would factor in feedback from non-executive Board members in his subsequent appraisal meeting with the Chief Executive.

19. Date of the next meeting

- 19.1. The next meeting of the Board would take place on 24 May 2017 at 2:00pm in Finlaison House.