
**Single Source Regulations Office
Minutes of the 11th Board Meeting
Board Room, Finlaison House,
15-17 Furnival Street, London EC4A 1AB**

**Tuesday 26th September 2016
2:00pm to 5:00pm**

Board members present:

Clive Tucker (Interim Chair)
Jane Attwood
David Johnston
Marta Phillips
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)
Ben Johnson (Senior Analyst) (item 4)
Colin Sharples (Head of Regulatory Policy) (item 6)

1. Welcome, apologies, announcements and declarations of interest

- 1.1. The Interim Chair welcomed Board members to the 11th SSRO Board meeting.
- 1.2. No apologies had been received.
- 1.3. David Johnston declared an interest of shareholdings in a named defence contractor. The contractor did not have a Qualifying Defence Contract or Qualifying Sub-Contract, and this was therefore not considered to represent a conflict of interest that would prohibit attendance for any of the items.

<p>There was one declaration of interests.</p>

2. Minutes of 10th meeting of the Board

- 2.1. The minutes of the 10th 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 Interim Chair and Chief Executive had continued to meet with senior representatives from the MOD, including the Minister, Permanent Under Secretary and DG Finance. The SSRO agreed with the Department that there should be improved collaboration between the SSRO and the MOD, while ensuring that the SSRO's independence was maintained.
- 3.3. The SSRO's study on wage inflation had been issued to the Secretary of State on 20 July, but the SSRO had still not yet received any comments from the Department or the Secretary of State's agreement to publish the report.

- 3.4. RUSI was hosting an event on the SSRO's recent publication *Perspectives on non-competitive defence spending* on 16 November. Board members had been sent invitations to attend the event and were encouraged to do so.
- 3.5. The Defence Committee had launched an inquiry on 'Defence Acquisition and Procurement', and the Board agreed that the SSRO should submit a formal response. The Board discussed the inquiry's terms of reference and agreed that the submission should answer the specific point in the terms of reference regarding the SSRO, but should also provide evidence-based views on other points within the SSRO's remit. The SSRO had discussed its plans for a submission with the MOD, and would share an outline of the proposed response with the Department.
- 3.6. The Board discussed the proposal in the report for a brief survey to be sent to stakeholders, seeking views regarding visibility and perceptions of the SSRO. This exercise would provide a baseline from which to gauge the SSRO's impact, and would be repeated at regular intervals in future. The Board agreed that the survey should be conducted in December 2016.
- 3.7. Under Standing Order 5 of the SSRO's Corporate Governance Framework, the Board had been asked to consider a paper outside the cycle of normal scheduled Board meetings on 4 July 2016. The paper sought the Board's approval to award a contract to Synectics Solutions for the replacement of the Defence Contracts Analysis and Reporting System (DefCARS) pilot programme. The Chief Executive confirmed that the resolution stood as a decision of the Board because it had been approved by all Board members before the end of the sixth working day following the despatch of the paper (11 July 2016).

The Board:

- a) agreed that the SSRO should respond to the Defence Select Committee's inquiry on Defence Acquisition and Procurement;**
- b) considered the proposal to issue a survey on the SSRO's communications; and**
- c) noted the information provided in other sections of the report, including meetings with stakeholders, publications and events, the paper issued under Standing Order 5 and the membership of Board sub-committees.**

4. Baseline profit rate 2017/18

- 4.1. Matthew Rees, Director of Analysis and Reporting, introduced a report on the baseline profit rate. The Board had resolved at its 21 June 2016 meeting that the SSRO should issue a consultation on the approach to the baseline profit rate for 2017/18. The consultation focused on the introduction of multiple rates and the SSRO funding adjustment, and ran from 8 July to 18 August 2016. The SSRO had received 11 responses, and the Board was provided with an overview of them, and discussed the SSRO's response.

- 4.2. The SSRO had in place a methodology for calculating baseline profit rates from the previous year's exercise. It was keeping the 2016/17 recommendation methodology under review, based on the approach that was set last year. As part of this review, the SSRO had carried out analysis on the issues raised by stakeholders in correspondence, meetings and in responses to the consultation about both the methodology and the extent of information published. Following the review, the SSRO remained confident that the methodology was robust and proposed only a small number of changes.
- 4.3. The Board discussed at length several of the points raised in the consultation, and the SSRO's response to them. These included the criteria for selecting comparators, how companies were assigned to particular sets, as well as the impact of different geographic areas in the sets.
- 4.4. The SSRO had undertaken a review of the NACE codes used and the Board considered minor changes to these. The SSRO had also reviewed the turnover threshold, and the Board discussed this and agreed that the threshold should remain at £5 million. The profits achieved by the comparable companies showed no systematic relationship between size and profit, and raising the turnover threshold reduced the number of companies in each basket.
- 4.5. The Board considered the potential inclusion of loss makers, and other technical points made in the consultation responses received. It also discussed the amount of information that would be published, as well as the steps taken to seek the views of a wide range of stakeholders and to be open with the SSRO's response.
- 4.6. The Board agreed that work should proceed on the calculation of multiple profit rates. The SSRO had put in place the resources needed to undertake the work using the 'unbundled' approach previously approved by the Board on 18 May 2016. The SSRO Board had resolved at its May meeting that the SSRO's starting point for multiple rates should be the six rates that it had developed prior to January 2016. The Board agreed that no changes were required to these six rates, which had been consulted on.

The Board:

- a) considered the responses to the SSRO's consultation on its approach to the 2017/18 profit rate;**
- b) agreed that no fundamental changes are required to the methodology for 2017/18 as a result of issues raised in the consultation, and that the SSRO should carry out full company search strategies to generate comparators for each profit rate;**
- c) agreed that recommending multiple rates is the right approach and that work to calculate the multiple profit rates should commence;**

- d) agreed that the full methodology and guidance document should be published with the recommendation of the rates to the Secretary of State in January 2017; and**

- e) approved the draft consultation response document, and delegated to the Interim Chair and Chief Executive authority to approve the final document for publication.**

5. Compliance and review methodology

- 5.1. Ian McPherson, Director of Compliance and Investigations, introduced a report providing proposals for an updated compliance and review methodology. The Executive Committee had reviewed the overall approach to compliance and, specifically, the published methodology. This had been undertaken with the aims of ensuring consistency with the legal position and improving collaboration between the MOD, industry and the SSRO, while protecting the SSRO's independence and commitment to transparency.
- 5.2. The report proposed that a six week public consultation should be launched on the methodology, allowing time for stakeholders to understand the approach and provide feedback.
- 5.3. The updated methodology was clear that responsibility for ensuring compliance with the Act and Regulations did not lie solely with the SSRO. A number of stakeholders, particularly the MOD, had a significant role and the updated methodology sought to make this clearer by focusing on actions taken by the MOD when issues are highlighted to it.
- 5.4. Under the updated methodology, the SSRO would consider if the required submissions were delivered on time; contained the information prescribed in the Regulations and any relevant statutory guidance issued by the SSRO; did not contain obvious errors; and were not otherwise erroneous. The methodology continued to propose that the SSRO would publish an annual Compliance Report, considering the actions taken by the MOD and contractors, as a function of meeting its obligations.
- 5.5. The Board discussed the proposed methodology, and agreed that the refinements were positive and would lead to a simpler, less burdensome process. Following a discussion of the format of publications, including the proposed non-inclusion of RAG ratings, the Board approved the methodology for consultation.

The Board:

- a) agreed the updated compliance and review methodology; and**
- b) agreed the consultation document and delegate to the Interim Chair and Chief Executive authority to approve the final document for publication.**

6. Impact of the referendum vote to leave the EU

- 6.1. Colin Sharples, Head of Regulatory Policy, introduced a report providing an overview of the potential impact of the outcome of the referendum to leave the EU on the single source procurement regime. The report considered the potential wider implications of the vote for the defence industry, the MOD and government, and the reaction of the defence sector.
- 6.2. In discussion, the Board noted that there had been a limited short-term impact and that the overall consensus from industry was that it was too soon to evaluate the impact of the referendum. There had however been several consistent messages coming from industry, including that performance may be affected by the new trade deals for the UK.
- 6.3. The Board noted that there was so far limited clarity about the implications of the referendum for SSRO staff who were non-UK citizens. The free movement and employment of citizens was an area of key importance not only for the SSRO, but also for international defence companies.
- 6.4. It was agreed that Colin Sharples would present a further paper to the Board on the issue in 6 months' time.

The Board:

- a) noted and commented on the issues arising from the referendum, set out in Appendix 1; and**
- b) agreed that an update should be provided to the Board in March 2017, or sooner, if greater certainty emerges on the changes intended by the government for defence procurement in the UK, or for the SSRO.**

7. Budget forecast and financial strategy

- 7.1. Neil Swift, Director of Corporate Resources, presented the forecast outturn for the 2016/17 SSRO corporate budget. The report identified the potential risk areas that could affect the final outturn figures and provided options to mitigate them. The report also reviewed the financial risks previously reported to the Board and financial strategy options for the 2017/18 budget in the light of the recently notified planning assumptions from the MOD.

- 7.2. The SSRO had incurred costs of £1,641,000 as at the end of July, which was lower than original budget expectations (£1,848,000). The forecast review reflected that the SSRO was currently in line with its 2016/17 original budget estimates and the planned utilisation of the remaining 2015/16 Grant in Aid.
- 7.3. The SSRO Board agreed a 2016/17 budget submission of £5,548,000 with the MOD. This budget included one-off project costs for IT developments and DefCARS.
- 7.4. The MOD had indicated that its planning assumption was that the next two years' baseline funding would be held at the 2016/17 level of £5,248,000. The potential for capped funding in future years posed significant challenges, as the SSRO remained in the early stages of its organisational establishment and development. Teams continued to operate at capacity in many areas with any unexpected peaks in workload impacting on resource constraints.
- 7.5. The Board discussed a range of options to address the shortfall of projected funding against possible resource requirements. It was noted that from 2017/18 the MOD would recover 50 per cent of the costs of the SSRO through the funding adjustment. While this reduction would be against the equipment budget, it represented a net gain to the MOD overall that would offset the impact of any funding requirement for the SSRO.
- 7.6. The Board approved the option set out in the paper that it should request additional funds for the SSRO based on an assessment of operational requirements and unavoidable cost pressures having discounted possible efficiencies.

The Board:

- a) noted the planned forecast for 2016/17 and that ongoing action is being taken to ensure all funds are expended with close monitoring of discretionary budgets and project spend;**
- b) noted and endorsed the update to the evaluation of financial risks and ongoing mitigating action; and**
- c) considered the budget pressures and potential mitigating action at section 7 and evaluated the options in section 8, which would lead to a formal budget proposal for 2017/18 being considered by the Board in December 2016.**

8. Corporate Performance Report

- 8.1. 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.
- 8.2. Overall performance was on target and, where it could be measured against the KPIs in the SSRO's published Corporate Plan, had been rated 'green'.
- 8.3. At its meeting on 21 June 2016, the Board had requested that the format and information within the report should be revised. This had been actioned, and the report presented at Appendix 1 was presented in a new format. The Board agreed that the new format was preferable and that it made the report easier to navigate.

The Board:

- a) noted the progress to date.

9. Minutes from the Audit Committee

- 9.1. Marta Phillips, Chair of the Audit Committee, introduced the minutes from the last meeting of the Committee. The agenda for the meeting had been short, with no substantive reports provided by internal audit.
- 9.2. The Committee had considered the Corporate Risk Register at length, and had reviewed all individual risks within it. The Committee had also noted a report from the Director of Corporate Resources, and had asked for a draft statement be developed on an issue that had emerged on a disclosure under the Public Interest Disclosure Act in case of further query.

The Board:

- a) noted the draft minutes.

10. Minutes from the Regulatory Review Committee

- 10.1. Jane Attwood, Chair of the Regulatory Review Committee, introduced the minutes from the last meeting of the Committee.
- 10.2. Two main issues had been discussed at the 19 July meeting of the Committee. The first was an update on the DefCARS database. While the timetables and budget for DefCARS were tight, there was a suitable project team in place, and the risk log and PID were of a high quality.

10.3. The second main issue that the Committee had discussed was the review of the legislation, which had taken a significant amount of time. The SSRO's second call for input, on transparency, had been published on 12 September. The Board discussed communications on the review with the MOD and other stakeholders.

The Board:

b) noted the draft minutes.

11. Minutes from the Referrals Committee

11.1. Clive Tucker, Chair of the Referrals Committee, introduced the minutes from the last meeting of the Committee. A new Committee had been formed, with Tim Walton as the independent member, to provide an opinion on an issue referred jointly by the MOD and a contractor. The issue is whether work undertaken at risk, ahead of the agreement of the contract through negotiation, may in principle represent Allowable Costs under the contract once it is in place.

The Board:

c) noted the draft minutes.

12. Any other business

12.1. The Chair noted that the SSRO was currently undertaking a range of methods of stakeholder engagement, and encouraged all Board members to make links with industry and the MOD. He asked for Board members to inform the Chief Executive of any such meetings.

13. Date of the next meeting

13.1. The next meeting of the Board would take place on 8 December 2016 at 2:00pm in Finlaison House.