

**Board members present:**

Jeremy Newman (Chairman)  
Jane Attwood  
Marta Phillips  
Clive Tucker  
Marcine Waterman (Interim Chief Executive)

**Others present:**

Catherine Light (minutes)  
Dan Coleby (IT Contractor) for item 7-14  
Colin Sharples (SSRO Contractor) for item 8-14

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**1. Welcome, Apologies and Announcements**

- 1.1. The Chair welcomed Board members and colleagues to the 1<sup>st</sup> SSRO Board meeting.
- 1.2. Apologies were received from Board member Jeremy Munroe.

**2. Declarations of Interest**

- 2.1. There were no declarations of interest.

**2.2. There were no declarations of interest.**

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**3. Strategic introduction of the SSRO**

- 3.1. The Chair gave details of the work done to date in establishing the SSRO and what has been achieved with its current limited resources.
- 3.2. The Chair informed the Board that suppliers and ministers have made it clear that the independence of the SSRO is a critical issue. It is important that not only is the SSRO independent but also that it is seen to be independent. It is important that all Board members are aware of this in all their activities.
- 3.3. The Chair gave an update on his engagement with stakeholders, including key suppliers, trade bodies, the Ministry of Defence and others.
- 3.4. The Board acknowledged that the SSRO will be open to scrutiny and that minutes of Board meetings will be published.
- 3.5. The Chair explained to the Board the timing for the establishment of the SSRO and the possibility that the Ministry of Defence might wish to agree one or more contracts subject to the provisions of the new single source regime as early as December 2014. While it is not clear to what extent the SSRO will need to be involved at this stage it was agreed that it must be able to do whatever is required by December 2014.

#### **4. Delivery of the SSRO's Statutory Functions**

- 4.1. The interim Chief Executive presented a report, which provided a brief summary of the statutory functions created by Part 2 of the Defence Reform Act in relation to the SSRO. It summarised the implications for delivering the two substantial statutory functions within the next few months.

##### *Contract Profit Rate*

- 4.2. The interim Chief Executive outlined that the SSRO is required to review the standard rates used to determine the profit rate for pricing single source contracts and to publish the review and make an annual recommendation to the Secretary of State. The SSRO must recommend the new rate to the Secretary of State by 31 January 2015. This will be an annual requirement.
- 4.3. The interim Chief Executive explained that the Review Board that calculates the rate under the current regime has also been asked to recommend the rate for 2015. In order not to duplicate efforts, and given the timetable, the interim Chief Executive recommended to the Board that the SSRO should discharge its responsibilities by relying on the work of the Review Board after undertaking proper due diligence on the methodology and process followed to have the assurance regarding the robustness and credibility of the current approach. It was agreed that the SSRO will need to work with the Ministry of Defence, industry, Deloitte and the Review Board to ensure it gets adequate access to enable the SSRO to get the necessary comfort on the basis of the calculation.
- 4.4. The Chair agreed to write to the Secretary of State to advise how the SSRO intends to proceed, outlining its requirements for access to the methodology for due diligence and a recognition of the SSRO's intended timetable.

##### *Adjustments to the Profit Rate*

- 4.5. The interim Chief Executive informed the Board that in addition to recommending the Baseline Profit Rate, the SSRO is required to publish guidance on the following adjustments allowed to the rate:
- profit and risk;
  - profit on cost once;
  - performance incentives; and
  - capital service allowances.
- 4.6. The timetable for publishing this guidance will be between January and March 2015.
- 4.7. The Board had a limited discussion on the possible options available for these adjustments. A paper on these adjustments would be presented to the next Board meeting with a recommended way forward.

### *Statutory guidance on allowable costs*

- 4.8. The Defence Reform Act sets out three principles that determine whether a cost is allowable. It must be:
- appropriate;
  - attributable to the relevant single source contract; and
  - reasonable in the circumstances.
- 4.9. The Chair wrote to industry for their initial comments. Responses varied from agreement with the existing Government Accounting Conventions to the opinion that they are an incomplete measure, and that more detailed principles and guidance will be needed.
- 4.10. The SSRO is required to publish statutory guidance on how to determine which costs are allowable in establishing a price for single source contracts.
- 4.11. The Board considered possible options for producing the guidance this year, and agreed to produce high level guidance building on the Ministry of Defence's interim guidance, signalling the SSRO's direction of travel and addressing known flaws in utilising the existing Governance Accounting Conventions.
- 4.12. The Board agreed to publish the guidance by the end of December 2014.
- 4.13. The paper also outlined the remaining statutory functions and priorities of the SSRO. The Board agreed further work was needed to fully understand the requirements and to consider options for how the SSRO will discharge these responsibilities going forward.

#### **4.14. The Board:**

- a) noted the duties and functions of the SSRO that arise from the legal framework under Part 2 of the Act;**
- b) noted the recent discussions with the MOD on its preferences for how and when the SSRO should deliver its key statutory functions;**
- c) agreed how the SSRO will deliver its responsibilities in relation to the contract profit rate and allowable costs guidance; and**
- d) reviewed and commented on the initial options for delivering the remaining functions through to April 2015.**

### **5. Framework Document**

- 5.1. The interim Chief Executive introduced the Framework Document, which sets out the relationship between the SSRO and its sponsor Department (the Ministry of Defence); the purpose and responsibilities of the SSRO; and details of how it will operate and be governed. Once the Framework Document is signed by both organisations, it will be published on the SSRO website.

#### **5.2. The Board:**

- a) approved the draft Framework Document;**
- b) agreed that the Accounting Officer should sign it on behalf of the SSRO; and**

- c) approved the recommendation that the Board delegate to the Chair and interim Chief Executive the approval of the Financial Framework in order to receive the interim grant-in-aid.**

## **6. Corporate Governance Framework**

- 6.1. The interim Chief Executive presented the report, which set out the SSRO's responsibilities and the procedures it will use to ensure it is governed by best practice. It sets out the key responsibilities of the Board of the SSRO; the conduct expected of members and staff; the Board's powers of delegation; and the proceedings of the Board.
- 6.2. In response to a Board member's query regarding declarations of financial interests, the interim Chief Executive agreed to investigate whether there was a 'de-minimis' investment level particularly relating to pension investments.

### **6.3. The Board approved the Corporate Governance Framework.**

## **7. Board and Committee structure**

- 7.1. The interim Chief Executive introduced the report, which proposes the Board's sub-committee structure, including the establishment of an Audit Committee; a Regulatory Review Committee; a Referrals Committee and an Executive Committee. The paper also invited comments from the Board on the draft Terms of References.
- 7.2. The Board agreed the establishment of all the sub-committees of the Board, and agreed to provide the Chair with details of their preferred Committee. The Board also agreed the membership of the Executive Committee.

### **7.3. The Board:**

- a) approved the establishment of the four proposed committees; and**  
**b) approved the terms of reference for the Board, the Audit Committee and the Regulatory Review Committee.**

## **8. Internal Audit**

- 8.1. The interim Chief Executive introduced the report, which sets out the SSRO's proposals for internal and external audit services.
- 8.2. The Corporate Governance Framework requires the SSRO to establish arrangements for internal audit. However it was recognised that in the absence of an Audit Committee at this stage, the Board was asked to endorse the proposals to outsource internal audit to XDIAS. XDIAS is the largest supplier of internal audit and assurance services to Whitehall. From April 2015, XDIAS will become an agency for the Treasury and will provide a single integrated internal audit service across all of government. By outsourcing internal audit to XDIAS it supports the SSRO's independent status, and it has the skills and resources necessary to support the SSRO in its development at competitive rates.

8.3. The SSRO also has an obligation to establish external audit arrangements. The Defence Reform Act states that the SSRO must appoint the Comptroller and Auditor General of the National Audit Office (NAO) as the external auditor. The interim Chief Executive has been in discussion with the NAO about the timing of their involvement which will not commence until the SSRO has its own funding.

**8.4. The Board:**

- a) noted the interim Chief Executive's recent discussions with the NAO;**
- b) reviewed and commented on the internal audit needs assessment for the transitional phase, from December 2014 to April 2015; and**
- c) agreed the SSRO will secure internal audit and assurance services from XDIAS from December 2104.**

**9. SSRO Organisation Structure**

9.1. The interim Chief Executive introduced the report, which sets out the developing organisation structure for the SSRO and the proposals for phasing recruitment to the identified posts.

9.2. The paper provided an outline of what may be needed, including outsourced back-office support and specialist skills. As the volume of work is unknown at this stage, the interim Chief Executive is pursuing a phased approach to recruitment.

9.3. The paper explains that the SSRO's statutory functions and duties require specialist professional skills. These skills will be available in the market place, but given both the volume and flow of work will be unpredictable, it was recommended that the SSRO is staffed with a mixture of in-house and brought-in specialist capability.

9.4. The Board is responsible for appointing the Chief Executive and Director of Corporate Resources as members of the Board, as well as the structure of the Executive Committee. The interim Chief Executive recommended the Executive is made up of four posts:

- a. Chief Executive;
- b. Director of Corporate Resources;
- c. Director of Regulations; and
- d. Director of Industry Analysis.

9.5. The Board reviewed the draft organisational structure and recognised this will develop over time. However there was a preference by the Board for building in-house capability rather than relying on brought in consultancy. The Board also recognised the total cost of the proposed organisation structure will need to be developed and tested following the initial requirement campaign.

**9.6. The Board:**

- a) noted the draft organisation structure and phased recruitment plans;**
- b) noted the proposal to outsource the back-office functions; and**
- c) approved the structure of the Executive Committee.**

## **10. Chief Executive Recruitment**

- 10.1. The Interim Chief Executive declared an interest and was not present for this discussion.
- 10.2. The Chair provided the Board with an update on the recruitment of a full time Chief Executive Officer.
- 10.3. The Board agreed that if the SSRO is unable to find a suitable candidate, it would ask the interim Chief Executive to extend her arrangements with the SSRO and that the position would be reviewed during the first half of 2015.
- 10.4. Board members noted that they had been very impressed with what has been delivered by the interim Chief Executive, even though she is only available on a part-time basis.
- 10.5. The Board agreed that the recruitment of a Director of Corporate Resources post should continue, regardless of the progress of the Chief Executive recruitment.

## **11. Information Management Strategy**

- 11.1. The interim Chief Executive introduced the IT Contractor, Dan Coleby.
- 11.2. Dan introduced his report, which proposes an information strategy for defining, developing and implementing IT services that will support the operation of the SSRO. He is following guidance from the Cabinet Office and Government Digital Service.
- 11.3. The Board noted the approach and general principles including:
- the services will be demonstrably separate from the Ministry of Defence's IT services;
  - the focus will be on identifying and supporting user and organisational needs;
  - technology will be an enabler not a barrier;
  - a pragmatic approach will be taken to security and compliance:
    - a) appropriate protection of data will be paramount and demonstrable;
    - b) users and stakeholders will be engaged and understand the approach and their obligations; and
    - c) the approach will align with new Government security classification and advice from the Government Security Secretariat (GSS) in Cabinet Office and the Communications Electronics and Security Group (CESG).
  - commercial and technical flexibility is important to support a growing organisation:
    - d) we will make use of modern and 'cloud' technologies to support this, in-line with Cabinet Office guidance for Government IT.
- 11.4. The Board discussed the ways in which the SSRO will collect, store and analyse data from industry, noting that an in-house option would be both expensive and high risk, given the expected resource available and security considerations. The Board agreed that an outsourced model would be the best solution but that this approach needed the support and agreement of the Ministry of Defence and industry.

11.5. The Board agreed the Director Corporate Resources will be the Senior Information Risk Officer (SIRO).

**11.6. The Board:**

- a) noted the principles being used to define new IT services for the SSRO and the processes to implement them; and**
- b) agreed to outsource the process and systems needed to collect, store and analyse information supplied by industry in accordance with the Defence Reform Act.**

## **12. Freedom of Information procedure**

12.1. Colin Sharples, a Contractor supporting the development of the SSRO, introduced his report, which outlines the responsibilities of the SSRO to adhere to the Freedom of Information (FOI) Act 2000.

12.2. The Board discussed the need to pro-actively provide information through a publication scheme. The SSRO must balance its obligations to comply with the Act with a need to give confidence to the Ministry of Defence and industry that it can be trusted to safeguard confidential, commercial information.

12.3. As a new organisation it has no track record and will be judged by its publication scheme and behaviours. The Board were informed the publication scheme will be need to be reviewed by lawyers and brought back to the Board for approval.

12.4. The Board discussed that SSRO publications would likely be subject to the Welsh Language Act (upon request).

12.5. The Board also discussed the Data Protection Act (DPA) and the possible need to appoint a data manager.

**12.6. The Board:**

- a) noted that the SSRO is subject to the FOI Act and accordingly will need to prepare a Publication Scheme setting out its approach to the publication of information, including the annual schedule of reports the SSRO will publish; and**
- b) noted that the Publication Scheme will be drafted and brought to a future Board meeting for agreement.**

## **13. Code of Conduct for Board Members**

13.1. The interim Chief Executive introduced the report, which set out the requirement for a Code of Conduct for SSRO Board members, providing a set of principles and responsibilities for SSRO members to observe, to ensure that they are seen to act in good faith and in the best interests of the SSRO.

13.2. The paper outlined the requirements within the Code of Conduct, with the Chair highlighting the importance of declaring conflicts of interest. The Board agreed it should aim for total transparency.

**13.3. The Board approved the Code of Conduct for SSRO Board members.**

## **14. SSRO Terms and Conditions of Employment**

14.1. The interim Chief Executive introduced the report, which set out the proposed main terms and conditions of employment for SSRO staff. The paper provided comparisons with other Executive NDPBs, particularly regulators of public services.

14.2. The main terms and conditions referred to in the report included:

- hours of work;
- probation period;
- annual leave;
- sickness benefit;
- pension arrangements; and
- pay structure.

14.3. The Board members discussed the proposed Terms and Conditions in relation to other regulators and agreed they were both fair and reasonable. The Terms and Conditions comply with recent Cabinet Office Guidance. The interim Chief Executive stated the next steps would include developing the Employment Handbook which would describe the remaining terms and conditions both contractual and non-contractual.

### **14.4. The Board:**

- a) approved the main terms and conditions of employment set out in the report; and**
- b) approved, in principle, a spot salary or basic rate pay structure subject to further development and costings being undertaken.**

## **15. Any Other Business**

### *Office Accommodation*

15.1. The Board requested an update on the SSRO's accommodation (Finlaison House). The interim Chief Executive confirmed the refurbishment was due to start on the 20 October 2014, and should be completed by the beginning of December 2014. Interim accommodation was being sourced with the help of the Ministry of Defence.

### *Publicity around Board appointments*

15.2. The new Board members asked if there would be publicity around their appointments. The interim Chief Executive confirmed there would be no press release from the Ministry of Defence, but that the Board composition would be launched on the SSRO website in due course.



### *Feedback on the first Board Meeting*

15.3. The Chair asked the Board to comment on what they considered went well and areas for improvement with the first Board meeting. The Board agreed the quality of the papers were good. They were all content with how the Board meeting had been handled and felt they had each been able to contribute to discussions and had no requests for matters to be dealt with differently.

### **Date of the next meeting**

15.4. The next meeting of the Board would take place on 1pm on 8 December 2014 in Finlaison House.