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**Single Source Regulations Office  
Minutes of the 7<sup>th</sup> Board Meeting  
Board Room, Finlaison House,  
15-17 Furnival Street, London EC4A 1AB**

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**25 January 2016  
2.00pm to 5.00pm**

**Board members present:**

Jeremy Newman (Chair)  
Jane Attwood  
Marta Phillips  
Clive Tucker  
Marcine Waterman (Chief Executive)  
Neil Swift (Director of Corporate Resources)

**Others present:**

Justine Wharton (minutes)  
Ian McPherson (Director of Investigations  
and Compliance – designate)  
Malcolm Botting (Head of Governance)  
David Galpin (Head of Legal)  
Colin Sharples (Head of Regulatory  
Policy)  
Simon Mahony (Chief Analyst)  
Anton Hume  
Duncan Nott

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**1. Welcome, Apologies and Announcements**

- 1.1. The Chair welcomed Board members and colleagues to the 7<sup>th</sup> SSRO Board meeting.
- 1.2. There were no apologies or announcements.

<b>There were no declarations of interest.</b>
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**2. Minutes of Board meetings**

- 2.1. The minutes of the 6<sup>th</sup> meeting of the Board were approved as a correct record, subject to a clarification in paragraph 4.2 that the SSRO had not received the government's response to the baseline profit rate methodology consultation by the due date or in time of the Board meeting on 9 December. The minutes of the extraordinary meeting of the Board were approved as a correct record.

**3. Chief Executive's Report**

- 3.1. The Chief Executive presented her regular report to the Board, which focused on significant issues that were not covered by papers elsewhere on the agenda.
- 3.2. The Chief Executive, the Chair and SSRO officials continue to engage with the MOD regularly on a variety of issues. The Chair and Chief Executive had recently met with Philp Dunne MP, the Minister of State for Defence Procurement, and on a separate occasion with Jon Thompson, the Permanent Under Secretary at the MOD, as part of their regular update meetings.
- 3.3. The SSRO had received feedback from both parties to the recent referral and incorporated their feedback into its amended process and guidance for handling referrals, which would be published on 28 January 2016.

- 3.4. As part of the SSRO's ongoing stakeholder management programme, the Chief Executive attended a Reform event on 'Securing value for money in defence procurement', at which Philip Dunne MP, Minister of State for Defence Procurement, was the guest speaker.
- 3.5. The SSRO's Compliance Report had been drafted and finalised in line with the guidance provided by the Board at its meeting on 9 December 2015. The SSRO had discussed early findings with the MOD and the report was due to be published on 28 January 2016.
- 3.6. The SSRO had published the remaining Defined Pricing Structure (DPS) templates on 14 December 2015. The SSRO had now published templates on all 16 military equipment types listed in the DPS principles document, which was published in June 2015.
- 3.7. The SSRO published the final 'Single Source Baseline Profit and Capital Servicing Rates Methodology' and the SSRO's consultation response to the review of the methodology on 21 January 2016. A six week public consultation on changes made to the 'Contract Profit Rate Guidance' would be launched on 25 January 2016.
- 3.8. Following the Board's approval of the restructuring of the Regulation Directorate at its meeting in December 2015, the Chief Executive stated that the SSRO had successfully recruited to both vacant Director positions and that the appointed staff would be in post from March 2015.
- 3.9. The consultation on the SSRO's programme of Value for Money studies closed on 18 December 2015. The consultation responses demonstrated that there was sufficient support, particularly from industry, for the programme. A three year plan would be developed, taking into account the views expressed, and published on the SSRO's website along with the SSRO's response to the consultation in February 2016.

**The Board:**

- a) **noted that a three year Value for Money studies plan, and response to the consultation, would be developed and published in February 2016 (section 6);**
- b) **noted that the Board would be asked to approve, under Standing Order 5, the contract award for managed IT support services (section 7); and**
- c) **noted the information within the report on our recent meetings with stakeholders, publications, recruitment and analysis.**

#### 4. Baseline profit and capital servicing rates assessment

- 4.1. The Chief Analyst, Simon Mahony, introduced a paper on the assessment of the appropriate 2016/17 baseline profit and capital servicing rates for recommendation to the Secretary of State. Anton Hume and Duncan Nott provided a presentation on the process that had been followed for assessment of the rates, and the resulting figures.
- 4.2. Section 19 of the Defence Reform Act 2014 (the 'Act') stated that, for each financial year, the SSRO must provide the Secretary of State by 31 January with its assessment of the appropriate baseline profit rate and capital servicing rates.
- 4.3. On 20 January 2016, the Secretary of State wrote to the SSRO issuing guidance under Part 2 Section 19(3)b of the Defence Reform Act stating that "For the financial year 2016/17, the methodology used to determine contract profit rates for the UK single source government defence contracts should be such that it would result in the setting of a single baseline profit rate". A copy of this letter was published on the SSRO's website alongside the SSRO's final methodology for calculating the baseline profit rates and the capital servicing rates.
- 4.4. The methodology for the baseline profit rates and capital servicing rates had been applied, and the proposed rates and supporting information were presented to the Board. The single baseline profit rate was based on the average of the two profit rates for 'develop and make' and 'provide and maintain' contract activities. The Board considered and approved the rates presented by the SSRO's officials.
- 4.5. Following the Board's approval, the Chair would write to the Secretary of State setting out the SSRO's recommendations on 29 January 2016. The SSRO's recommendation would only be published after the Secretary of State published the final rates in the London Gazette, by 15 March 2016.

#### **The Board:**

- a) **assessed the appropriate 2016/17 baseline profit and capital servicing rates for recommendation to the Secretary of State.**

#### 5. Production of the 2016-19 Corporate Plan

- 5.1. The Chief Executive introduced a report on the production of the 2016-19 Corporate Plan. The report highlighted the requirement on the SSRO to submit to the MOD a copy of its Corporate Plan at the end of the financial year, in March 2016, covering the following three years. The report also set out the requirements relating to the content of the Corporate Plan and a timetable for consultation and approval. Under the Corporate Governance Framework, the Board had responsibility for considering and approving the SSRO's Corporate Plan. An oral presentation was provided setting out proposed content for the Board to discuss and approve.

- 5.2. The Board agreed that the objectives and values of the SSRO were still fit for purpose and therefore should remain as set out in the 2015-18 plan, subject to a minor amendment of objective three so that it read “analyse the data provided to us to share best practice and assess compliance”. The Board approved the proposed structure of the Plan, and made several amendments to the key performance indicators from the previous plan, including removing KPIs that were had been achieved in 2015-16 and were not relevant for the remainder of the Corporate Plan period; inserting a new KPI on the SSRO’s Value for Money programme; and clarifying that the SSRO would conduct all requests for an opinion within 40 working days of acceptance by the SSRO.
- 5.3. The SSRO’s Corporate Plan would subsequently be drafted in line with the Board’s direction and issued to interested parties for consultation. Any responses received would be considered and a final version presented to the Board on 23 March 2016 for approval. Should the Board approve the Corporate Plan at this meeting, the SSRO’s Corporate Plan 2016-19 would be shared with the MOD and published at the end of March 2016.

**The Board:**

- a) **approved the approach to the production, content and tone of the 2016-19 Corporate Plan, as set out in the presentation that was given to the Board.**

## **6. Corporate Performance Report**

- 6.1. Neil Swift, Director of Corporate Resources, introduced the Corporate Performance Report, providing an update on how the organisation was delivering against its corporate priorities as at 31 December 2015. 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. 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’. The SSRO’s fourth objective to “Keep the Act and Regulations under review” was rated ‘grey’, because, although work on this project was underway and to timescale, it was too early to meet any of the related KPIs.
- 6.2. The work over the period covered by the report included analysis of the seven new QDCs and one QSC in December; completing the review of the baseline profit rate methodology; publishing the full suite of DPS templates; a sixth update to SSRO Answers; reviewing feedback from the baseline profit rate methodology and Value for Money studies programme consultations; assessing a referral for a determination; conducting compliance assessments; various meetings with industry and the MOD; and drafting the Compliance Report for publication in January 2016.

**The Board:**

- a) noted progress to date.

**7. PIDA responsibilities - process and publication**

- 7.1. The Director of Corporate Resources, presented the SSRO's new process for handling 'whistleblowing' disclosures made to it. On 1 February 2016, the Public Interest Disclosure (Prescribed Persons) Order 2014 would be amended to list the SSRO as a 'prescribed person' to whom protected disclosures may be made under the Employment Rights Act 1996 (ERA). This would allow the SSRO to strengthen its oversight of the single source defence procurement regime by receiving concerns of malpractice or wrongdoing by SSRO staff, employees of industry, the MOD and third parties.
- 7.2. As a 'prescribed person' the SSRO would be required to handle 'qualifying disclosures' in line with the requirements of the Act and report on the organisation's handling of such in its Annual Report and Accounts.
- 7.3. This report proposed that the SSRO's existing Whistleblowing Policy should be amended to incorporate the new responsibilities under the Public Interest Disclosure Act (PIDA), and a revised policy was set out in the appendix for the Board's approval. In drafting this procedure, consideration had been given to other regulators' approaches. The Board noted that the Act did not convey any new powers on the SSRO to investigate matters that were disclosed, beyond such powers which were already in place.
- 7.4. In order to encourage industry, MOD officials and third parties to share their concerns of malpractice or wrongdoing, the SSRO would publicise its inclusion as a prescribed person under PIDA through appropriate channels within both MOD and industry.
- 7.5. The Board discussed and approved the amended Whistleblowing policy, subject to a minor amendment to clarify in paragraph 3.2 that disclosures could be made by postal correspondence in addition to emails and telephone calls. The Board also approved the proposed methods included in the report for publicising the SSRO's new responsibilities.

**The Board:**

- a) approved the internal procedures for handling disclosures, as set out in section four of this report;
- b) approved the amended SSRO Whistleblowing Policy at Appendix 1; and
- c) approved the proposed methods for externally publicising the SSRO's responsibilities under PIDA as set out in section five of this paper.

## 8. Legal services framework

- 8.1. David Galpin, Head of Legal, presented a report on the SSRO's legal services framework. The SSRO had conducted an open tender process to procure a framework of contractors that could provide legal services. As the potential value of the contract exceeded £100,000, and was therefore above the limit that required Board approval under the financial scheme of delegation, the Board was asked to approve the firms to be appointed to the framework.
- 8.2. The SSRO have an in-house legal advisor, but it was expected that the SSRO would require additional legal advice and support from time to time to ensure the efficient and effective discharge of its functions. Following a high quality response to the tender, the Executive Committee recommended appointing the two highest ranked firms on quality and price. Appointing the two top firms would provide the SSRO with access to a sufficient range of expertise in the three advertised areas of work and enough flexibility that appointments could be made from the framework if a conflict arose.
- 8.3. The Board was assured that any potential conflict of interests with the firms' other clients would be explored each time prior to work being assigned, and ongoing contract management would review the costs of each firm, including the amount of hours each firm billed for.

### The Board:

- a) **agreed with the Executive Committee's recommendation to appoint Bates Wells Braithwaite and Bevan Brittan to the legal services framework; and**
- b) **authorised completion of the documents needed to establish the framework.**

## 9. Information assurance – update and briefing

- 9.1. The Director of Corporate Resources introduced a report summarising the progress made on the SSRO's development of user guidance on the Government Security Classifications, information handling and an ISO27001 gap analysis.
- 9.2. The Board was informed that the SSRO had worked with Hex Security, a recognised cyber security supplier to the UK government, to receive full security accreditation for the SSRO's Defence Contracts Analysis Reports pilot System (DefCARS) from the MOD. The SSRO had achieved Cyber Essentials certification and was undertaking work to achieve Cyber Essentials Plus certification, which it was confident of achieving in quarter 4 of 2015/16. The SSRO was also undertaking an ISO27001 gap analysis, to determine the extent of current compliance prior to considering accreditation to this standard.

- 9.3. The Board enquired what information security arrangements were in place with third party information technology suppliers, such as Board Intelligence, the software used by the SSRO for Board and Committee paper management. It was stated that suppliers are required to meet the security criteria matched to the information being handled when providing services to the SSRO. Following the recent work on cyber essentials an updated security aspects letter would be issued to relevant suppliers.
- 9.4. The SSRO was also working with Hex Security to provide user guidance on the government security classifications and information handling, which would be delivered through Board and staff training sessions. The Board then received a training session on the Government Security Classifications and information handling, as part of this item of the meeting.

**The Board:**

- a) **noted the progress on overall information assurance activities; and**
- b) **noted key points from the oral briefing on the Government Security Classifications and information handling.**

**10. Minutes and updates from sub-committees**

- 10.1. Jane Attwood provided an update on the Regulatory Review Committee meetings on 2 December 2015 and 18 January 2016. The main issue of these meetings had been a discussion of the SSRO's review of its regulatory functions, and approval of a timetable and the matters to be explored in execution of this statutory function.
- 10.2. Clive Tucker provided an update on the Referrals Committee meeting on 22 January 2016 relating to a matter received for a determination.

**11. Any other business**

- 11.1. There was no other business.

**12. Date of the next meeting**

- 12.1. The next meeting of the Board would take place on 23 March 2016 in Finlaison House.