

Board members present:

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

Others present:

Malcolm Botting (minutes)
Ian McPherson (for part)
Tom Roberts (for part)

1. Welcome, Apologies and Announcements

- 1.1. The Chair welcomed Board members and colleagues to the 2nd SSRO Board meeting.
- 1.2. The Chair informed the Board that Jeremy Monroe had resigned as a non-executive member of the SSRO. There was at present no intention to appoint a replacement non-executive member. The Defence Reform Act required the SSRO to appoint more non-executive than executive Board members. There were now four non-executive members, including the Chair, and there would in future be two executive members, the Chief Executive and the Director of Corporate Resources.
- 1.3. The Board would keep the need for further appointments under review, in light of the volume of referrals anticipated in the medium to long term. **The Board would review appointments at its June 2015 meeting.**

2. Declarations of Interest

- 2.1. There were no declarations of interest.

2.2. There were no declarations of interest.

3. Minutes from the last meeting

- 3.1. The minutes of the last meeting, held on 13 October 2014, were approved as a correct record, subject to minor drafting amendments.

4. Interim Chief Executive's Report

- 4.1. The interim Chief Executive presented the report, which focused on significant issues that were not covered by papers elsewhere on the agenda.
- 4.2. The interim Chief Executive reported that the secondary legislation anticipated under Part 2 of the Defence Reform Act 2014 in relation to single source

procurement reform would be debated in the House of Lords on 9 December and in the House of Commons on 10 December. Members were provided with copies of the draft regulations. Should Parliament approve the draft regulations, the new framework would come into force immediately afterwards. While the SSRO was established in July 2014 as an organisation, the SSRO would only be empowered to undertake its full functions at this point. The Board discussed the stages in which the framework was to be implemented, and the likely volume of qualifying defence contract referrals in the short and medium term.

- 4.3. The refurbishment of the SSRO's office at Finlaison House had been completed, and the few remaining issues were being resolved.
- 4.4. The interim Chief Executive described the historical issues faced by the SSRO in seeking to appoint interim staff to HR, Finance and Legal posts. The issues had been reported to the responsible organisation, and the Chair and interim Chief Executive were meeting with senior representatives from the organisation in the near future. An interim HR Manager, Legal Adviser, IT Manager and Finance Manager had now been appointed.
- 4.5. The SSRO would look to recruit permanently to key posts in the corporate centre early in the New Year. The SSRO would recruit to the majority of permanent professional and technical posts when there was greater clarity about future volumes of referrals. Specialist professional resources would be used as required until that time.
- 4.6. The interim Chief Executive explained the purpose of the Transition Programme Board, which included representatives from the SSRO and MOD and considered common issues and risks to the successful formation of the SSRO; it did not have authority over the operational decisions of the SSRO.
- 4.7. The interim Chief Executive provided an update on the Code of Conduct for Board members, which had been revised following the Board discussion at its last meeting.

4.8. The Board noted the information contained in this report, including the sections on recent meetings with MOD, stakeholder engagement, staff recruitment and the establishment of the organisation.

5. Financial Framework

- 5.1. The interim Chief Executive presented the Financial Framework, which set out the arrangements that would govern the payment and expenditure of Grant-In-Aid made to the SSRO by the MOD. The Financial Framework would be reviewed every five years, when the SSRO appoints a new Chief Executive, or as and when required.
- 5.2. The Board had delegated authority to the Chairman and Chief Executive to agree the framework with the MOD. The interim Chief Executive informed the Board that the Financial Framework had been signed and, following legal advice, should be dated.

5.3. In discussion, the Board raised a question on paragraph 5 of the Financial Framework, which stated that the SSRO's running costs should not be used for "development of business activities". This was inserted to prevent the SSRO from taking on additional functions or activities beyond its statutory functions, unless specifically authorised by the MOD.

5.4. The Board noted the signed Financial Framework. The Board delegated authority to the Chairman and Chief Executive to agree the framework with the MOD.

6. Whistleblowing policy

6.1. Malcolm Botting, interim Head of Governance and Policy, presented the report, which set out a draft whistleblowing policy for the SSRO. The Framework Document between MOD and the SSRO required the SSRO to have "whistleblowing procedures consistent with the Public Interest Disclosure Act". The Public Interest Disclosure Act 1998 created a framework that provided individuals in the workplace with protection from victimisation when raising concerns about malpractice within their organisation. It was important for the SSRO to have a policy in place so that staff could be assured that it was safe to raise concerns internally, and so that the SSRO was promptly made aware of potential malpractice.

6.2. Following comments from Board members and legal advice, the Board agreed that the policy should be amended to nominate a specific whistleblowing officer, and to include a section on steps to take after a qualifying disclosure is made. There would be a provision in the policy that a report on whistleblowing would be presented to the Audit Committee every six months.

6.3. The Board approved the Whistleblowing Policy.

7. Gifts and hospitality policy

7.1. The interim Head of Governance and Policy presented the draft gifts and hospitality policy, which established a series of rules and processes for members and staff to follow on receipt of (or offer of) a gift or hospitality, or in circumstances of gifts or hospitality to other organisations. The guidance was required by the SSRO's Corporate Governance Framework, and its aim was to guard against impropriety by SSRO members or staff.

7.2. In discussion, the Board approved the draft policy and the principle that all offers of gifts and hospitality should be reported to the Chief Executive and published in a register on the SSRO's website. Some small amendments to the drafting would be made before the policy was published alongside the register. The Board suggested that, while the register would be updated as and when gifts or hospitality were offered, SSRO staff should send quarterly reminders to non-executive members to remind them to update their register entries.

7.3. The Board approved the Gifts and Hospitality Policy.

8. Allowable costs

- 8.1. Ian McPherson and Tom Roberts were present for this item.
- 8.2. The interim Chief Executive introduced the draft guidance paper on allowable costs. The Board had agreed at its last meeting that the SSRO should aim to publish the statutory guidance on allowable costs by the end of December 2014. The Board had also approved the approach for drafting the guidance at its last meeting. The timetable for the production of the guidance had been tight but deadlines had been met, and the Board was pleased with the draft guidance produced. The interim Chief Executive thanked Board members for their comments on the draft guidance before it was published for consultation on Wednesday 26 November.

8.3. The Board noted the approach set out in the paper.

- 8.4. The authors of the draft guidance gave a presentation on the work to produce the draft guidance, covering the background to the policy requirement and the production of the guidance itself. In preparing the guidance, they had reviewed American and Canadian guidance; the MOD's interim guidance; existing Government Accounting Conventions; and feedback from industry to the SSRO's initial consultation. In doing so, they had aimed to take the best of the guidance available and make it relevant to the new framework.
- 8.5. In discussion, Board members stated that they expected to receive a variety of views in the response to the consultation. The Board discussed its approach to considering consultation responses and to ensure value for money for the taxpayer and a fair and reasonable return for contractors.
- 8.6. Responses from industry were expected by 10 December. The Board would convene an extraordinary meeting on 18 December to consider its approach to the final version of the guidance to be issued, in light of responses to the consultation.
- 8.7. The Chair thanked the authors for their work on behalf of the Board. At the end of the item, Ian McPherson and Tom Roberts left the meeting.

9. Profit rate

- 9.1. The interim Chief Executive introduced a paper on the profit rate, setting out the latest position on the SSRO's discussions with the Review Board and its shadowing of Deloitte's work to set the baseline profit rate and capital servicing allowances. At its previous meeting, the Board had agreed that the SSRO should discharge its responsibilities for the calculation of the rate to be presented to the Secretary of State in January 2015 by relying on the work of the Review Board, after undertaking due diligence on the methodology and process followed.
- 9.2. The Chair informed the Board of discussions at the Review Board's meeting on 4 December 2014, which he had attended, and the Review Board's work to issue a rate to the SSRO. The Board would consider the final profit rate presented by the Review Board at its meeting in January 2015.
- 9.3. The Review Board intended to publish the last Yellow Book in January, with a list of points that the SSRO should consider in future.
- 9.4. In discussion, the Board signalled its intention to review the process behind the calculation of the profit rate from first principles, when commencing work to calculate the profit rate to be presented to the Secretary of State in January 2016.

9.5. The Board noted the approach set out in this paper for information.

10. Defined Pricing Structure

- 10.1. The interim Chief Executive presented a report on the Defined Pricing Structure (DPS), the term used in the Single Source Cost Regulations 2014 to describe lists of cost categories used to capture data on the contract reports required for Qualifying Defence Contracts. The Regulations specified the various reports required by contractors that must be submitted to both the Secretary of State and the SSRO. The SSRO was required to publish statutory guidance and report templates.
- 10.2. The objective for the DPS was for the SSRO to build up over time a single, centrally available, comprehensive and robustly structured data set that records the estimated and outturn costs, alongside initial and final contract out parameters, for every Qualifying Defence Contract. This was a challenging proposition currently, given the request to issue the report templates and guidance by 31 March 2015.
- 10.3. In discussion, the Board agreed that, given the amount of resource needed to develop the DPS, and in the time available, the SSRO should focus on high level guidance and DPS cost definitions for only the 'early adopter' contracts over the next year. The SSRO would subsequently develop further detail on the DPS model and cost definitions, working with suppliers (particularly early adopter suppliers) and the MOD. The Board recognised the importance of working closely with suppliers, while recognising that the defence industry was not homogenous in its views.

10.4. The Board agreed that the SSRO should contract specialist resources to develop and issue the Contract and Supplier reports and associated guidance by 31 March 2015.

10.5. The Board:

- a) **noted the requirements on the SSRO to issue the statutory guidance on contract and supplier reporting;**
- b) **agreed to contract specialist resources to develop and issue the Contract and Supplier reports and associated guidance by 31 March 2015; and**
- c) **agreed that the SSRO should take more time to develop the DPS model and cost definitions working with both the MOD and early adopter suppliers.**

11. SSRO Corporate Budget 2014-15

11.1. The interim Chief Executive introduced the report, which sought approval for the SSRO corporate budget for the remainder of 2014-15.

11.2. The SSRO had a corporate budget for the remainder of 2014-15 of £2 million. This would be funded by Grant-In-Aid (GIA) from the MOD. GIA would be drawn down from the MOD quarterly upon presentation of evidence of need. The SSRO had to date received £1 million and expected to draw down the second £1 million in mid-January. A significant proportion of the budget was allocated to staff costs and procuring services to advise on or take forward the SSRO's statutory functions. A significant proportion of corporate services would be outsourced.

11.3. In discussion, the Board agreed the budget and the principle that the SSRO should spend what it needed to deliver necessary functions. To fulfil its duties, the SSRO would sometimes be required to obtain professional expertise; it would also require external panel members for sub-committees of the Board, as required by the Defence Reform Act.

11.4. The Board would in future receive a report of performance against the budget at each meeting. Planning and preparation for the 2014-15 Annual Plan and Corporate Budget would commence when a Director of Corporate Resources had been appointed and an interim Finance Manager was in post.

11.5. The Board approved the 2014-15 SSRO corporate budget.

12. SSRO Stakeholder Management Strategy

12.1. The interim Chief Executive introduced the report, which sought approval for the SSRO's developing Stakeholder Management Strategy and for a number of specific engagement activities. Stakeholder engagement had mainly been carried out to date through the SSRO Chair, meeting prime defence contractors, MOD officials and ministers, other government departments and politicians. The SSRO had compiled and begun to segment a detailed list of key stakeholders, developed a website, house style and brand, and produced its first newsletter and consultation document.

12.2. The paper recommended that, with the MOD's Senior Single Source Regime Forum shortly drawing to a close, the SSRO Board should hold a forum twice each year for MOD and all prime defence contractors' Chief Executives or Chairs, and the Chief Executive of the ADS. In discussion, the Board agreed that it should meet twice a year with industry. The first event should be held in early 2015, and the SSRO should explore possible venues and timings. The event would be publicised in the proposed January newsletter, and specific invites would also be sent.

12.3. The Board agreed that quarterly discussions of mainly operational matters should take place between the SSRO Executive Committee and the prime defence contractors. Operational issues would benefit from more in depth detailed discussions at working level.

12.4. The Board agreed to host briefing events and discussion opportunities for interested MPs and members of the House of Lords.

12.5. The Board:

- a) approved the SSRO's Stakeholder Management Strategy;**
- b) agreed that the SSRO should continue its current approach to stakeholder engagement of raising awareness about the SSRO and its work, establishing credibility and independence, and signalling a 'direction of travel';**
- c) agreed that the SSRO should continue engaging with stakeholders through its newsletter, consultations, website and in future social media;**
- d) agreed that the SSRO Board should hold a bi-annual forum with the prime defence contractors and the MOD;**
- e) agreed that quarterly discussions of mainly operational matters should take place between the SSRO Executive Committee and the prime defence contractors and the MOD together or separately as appropriate; and**
- f) agreed that the SSRO should hold a 'surgery/briefing session at least annually for interested MPs, Lords, parliamentary researchers etc.**

13. Any Other Business

13.1. The Chair informed the Board that interviews for the permanent post of Director of Corporate Resources would take place on 10 December.

13.2. Jane Attwood informed the Board that she had been appointed as Head of Intelligence for the FCA. Clive Tucker stated that he had been appointed as a non-executive steering board member and audit committee chair at the UK Space Agency. The Board agreed that neither appointment would represent a conflict of interest.

Date of the next meeting

13.3. The next meeting of the Board would be an extraordinary meeting to discuss allowable costs. It would take place at 2pm on 18 December 2014 in Finlaison House.