

Chairman's introduction

Welcome to the first newsletter of 2018.

Having marked the one-year anniversary of my Chairmanship of the SSRO, my continued focus is on the future of the SSRO and the effective delivery of its statutory functions; doing our job and doing it well. Namely:

- recommending the baseline profit rate;
- providing statutory guidance;
- undertaking referrals that will help clarify or reinforce the regulations and guidance; and
- our ongoing review functions.



I firmly believe the SSRO is emerging as an expert source of guidance and advice on the operation of the single source procurement regime and the regulations. The breadth and depth of this will grow as our engagement with you develops, and as the regime matures. To further our all-round understanding, over the coming year we are looking to expand our panel of independent or external experts with experience of the defence procurement and the defence industry whose knowledge we can draw upon. I welcome your suggestions as to who might be suitable for the panel.

To begin 2018, we were invited to give evidence to the Public Accounts Committee, as part of their inquiry into 'Non-competitive procurement of defence equipment'. It was an interesting session and we look forward to the Committee's report.

The message we delivered to the Committee was that a clear and consistent application of the framework, supported by statutory guidance, good information and open and effective feedback will deliver better single-source defence procurement.

We have begun the process of recruiting a permanent Chief Executive for the SSRO. We are running a full and open competition, and I will share details of the successful candidate when known.

I will continue my bilateral meetings with many of the prime contractors' Chief Executives and Senior Management in the months ahead, as well as with the MOD's senior leadership. I had a positive first meeting with the Minister for Defence Procurement and I look forward to continuing this engagement. I also have an ongoing programme of visits to defence contractors' sites across the UK. It is always interesting to get out and meet representatives of the defence industry – thanks for your time and for hosting me and my colleagues.

A handwritten signature in black ink, appearing to be 'Gordon', written in a cursive style.

Review of the Legislation

In December 2017, the Secretary of State announced that he had completed his review of the Defence Reform Act and the Single Source Contract Regulations 2014. On January 24, we [published our recommendations](#) that were provided to the Secretary of State as part of his review.

The Secretary of State has yet to publish details of any changes that will be made. The SSRO remains committed to engaging and constructively working with industry and the MOD on implementing any resulting changes, building on the relationships that we have established over the last year.

As the timing of legislation or other changes become clear we will take care that implementation takes place in a planned way, alongside other ongoing work, and with appropriate levels of engagement.

Risk report

We also published the '[Cost Risk and Incentives in Qualifying Defence Contracts](#)', which was supplied to the Secretary of State to assist him in his Review of the Legislation.

The report assembles the evidence currently available to the SSRO about the pricing of cost risk and incentives in QDCs. It includes analysis of data on QDCs agreed in 2015/16 and 2016/7.

Profit rate 2018/19, and Allowable Costs

We have made our recommendation to the Secretary of State for the single source baseline profit rate and capital servicing rates for 2018/19. To support transparency on the methodology, it is the SSRO's intention to publish information on the recommendation after the Secretary of State has announced the rates for 2018/19.

Following a period of development and consultation, including the production of working papers, the latest update to our Allowable Costs guidance the '[Single Source Cost Standards](#)' was published on 1 February.

The standards will apply to all QDCs and QSCs entered into from 1 April 2018. We are grateful to all those who contributed through the consultation process, which informed the revisions to the guidance. We will look to replicate this as a model of future engagement with stakeholders.

Formal opinion on a proposed Qualifying Defence Contract

In accordance with the procedure published in the SSRO's referrals guidance, the SSRO has published [an anonymised summary of its opinion in relation to a proposed qualifying defence contract \(QDC\)](#). The referral concerned the extent to which costs agreed prior to conversion of a contract to a QDC may be treated as Allowable under the Defence Reform Act 2014. The referral request was made by the MOD.

The SSRO considers that the approach to sunk costs set out in paragraphs 7.9 and 7.10 of the SSRO's Single Source Cost Standards may equally be applied to the committed costs of the proposed QDC. The SSRO expects that the parties would satisfy themselves at the time of amending the enabling contract as to whether the costs agreed prior to conversion to a QDC are allowable. In the SSRO's opinion, they may be allowable, depending on the application of the AAR test, having regard to the Single Source Cost Standards. The summary sets out the key considerations that the SSRO has had regard to in forming the opinion.

The anonymised summary has been prepared having regard to the commercial sensitivity of matters, the subject of the opinion and the SSRO's obligations under Schedule 5 to the Act.

Corporate Plan for 2018 - 2021

We are finalising our Corporate Plan for 2018 - 2021. The Plan focuses on the effective delivery of the SSRO's statutory functions. We have chosen to recast our corporate objectives to more clearly map to our statutory functions.

As part of the planning process, we are consulting with the defence industry, the MOD and other stakeholders about the areas the SSRO should review in 2018/19. Thank you to all who have inputted so far – we are grateful for your participation.

Resource requirements for the next financial year are broadly stable and in line with our agreed funding. We continue to recruit staff with experience of defence and industry.

The Corporate Plan will be published on 30 March.



Staff update



SSRO staff, under their own initiative, have undertaken fund raising events to support the charity Blind Veterans UK.

Over the Christmas period, staff held a festive themed bake sale, showcased their best Christmas jumpers, and a 'best decorated desk' competition.

SSRO staff have raised
£3,376
for Blind Veterans UK

Staff are looking forward to supporting the charity through a number of fundraising events during 2018, including a team of staff who will be taking on the 100-kilometres, 24-hour walk, from London to Brighton.



Dates for the Diary

20 March

Operational Working Group

28 March

SSRO Board meeting

30 March

Corporate Plan published

23 April

UK Regulators' Network annual conference

22 May

SSRO Board meeting