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Introduction from the Chairman

Welcome to the second newsletter of 2018.

One aspect of my role as Chairman of the SSRO is to be aware of the health of the relationships we have with other organisations. It is vitally important to me that those we work with – whether that be industry, the MOD, or other stakeholders – feel that we listen and engage well with them.

From reading my previous introductions to this newsletter, or for those of you who I have met, you will know that over the past 18 months I have led the SSRO in resetting relationships with our stakeholders.

I am delighted this work is starting to bear fruit, which is shown in the results of our recent stakeholder survey. This helped us to measure the effectiveness of our engagement with stakeholders and provides insight into how this could be further developed and improved.

I am heartened by the results of the survey, and in particular the headlines that:

- › 89% of respondents consider the SSRO engages well.
- › 55% of respondents had a more favourable opinion of the SSRO now than 12 months ago.
- › 73% of respondents rated the SSRO's overall performance as good or very good in the past 12 months.

Respondents also rated highly the range of work we do to engage with stakeholders.

But we also recognise we have more to do. We have planned a number of further improvements, and they include:

- › Improving our consultation process.
- › Advancing our engagement mechanisms with industry.
- › Broadening our relationships within the MOD.
- › Developing our proactive support to stakeholders.



We have published a report on the stakeholder survey, which gives an insight into what stakeholders told us. We've also published our new Stakeholder Engagement Strategy, which has been informed by the results from the survey.

Since the March newsletter I have had a series of meetings with stakeholders, which have taken in leaders from the prime defence contractors, the MOD ministerial team, and the newly established Submarine Delivery Agency. We also presented a lecture to the Advanced Command and Staff Course at Shrivenham, that gave the UK's future military leaders an overview of the SSRO and its work.

Shifting focus to internal developments, I and the Board were very pleased to appoint Neil Swift as Chief Executive for the SSRO. This is a vital appointment for the SSRO. Neil will continue to drive forward our positive momentum, focusing on the delivery of our statutory functions and work programme while engaging well with all our stakeholders.

Regards

Cost risk guidance and profit rate methodology

At our pricing guidance workshop on 3 July we updated stakeholders on our current plan to issue revised guidance on cost risk. We also flagged the need to revise our timetable so that guidance can be developed (taking account of proposed legislation relating to the cost risk adjustment) and take effect from 1 April 2019. Following the workshop, we are planning to circulate a working paper on this topic to stakeholders in the autumn.

Work is ongoing to finalise the baseline profit rate methodology for 2019/20. Earlier this year we invited stakeholders to provide comments on the baseline profit methodology and we are considering comments and suggestions and we have accepted requests for meetings. The SSRO's Board will consider this matter in September, and the analytical phase will commence in October.

Working papers on guidance

We have issued working papers to stakeholders as part of our programmed review of guidance.

The papers focus on:

- › Research and Development costs.
- › The Capital Servicing Adjustment in the contract profit rate calculation.
- › The Requirements of Allowable Costs (the AAR test).

We have invited written feedback from members of the Operational Working Group and other interested stakeholders. As part of enhancing how we engage with and consult stakeholders, we have discussed each of the papers face-to-face at workshops. We value the stakeholder input we receive at these events, it helps us to understand the issues associated with applying the guidance in practice, and directly informs our proposals for change.

Following the workshops and associated dialogue with stakeholders, any proposed changes to the guidance will be the subject of public consultation, which we expect to undertake in October.



Annual Qualifying Defence Contract statistics: 2017/18



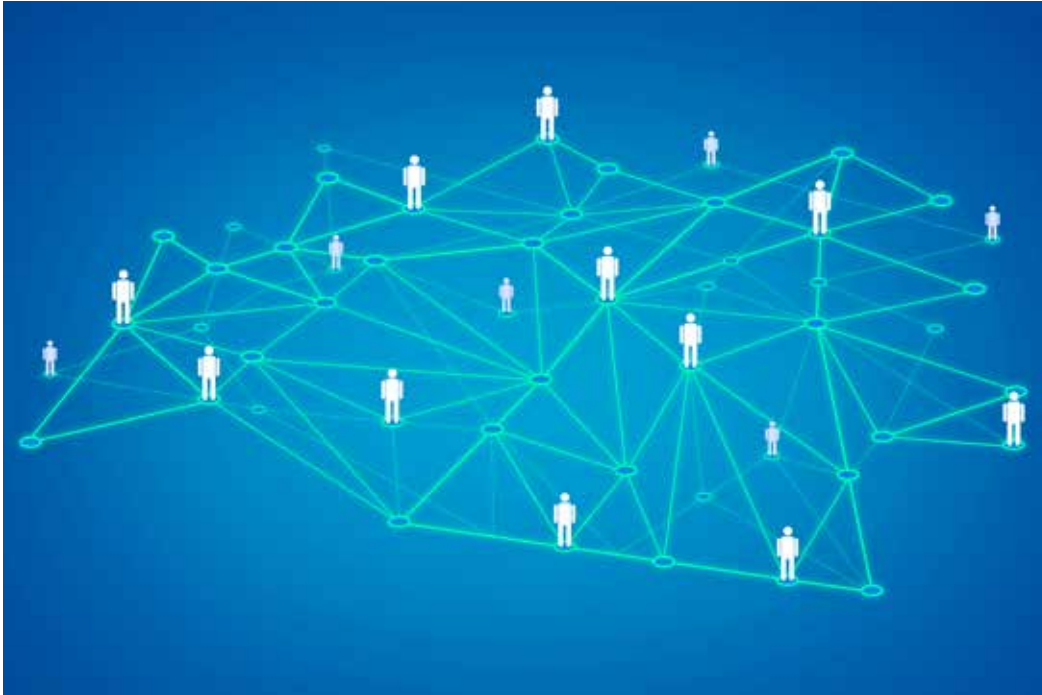
We have published the [annual publication on key statistics relating to qualifying defence contracts \(QDCs\) and qualifying sub-contracts \(QSCs\)](#).

The annual bulletin is part of a regular published series of statistical reports, containing analysis of key QDC/QSC information. This publication includes analysis of all contracts that became a QDC/QSC between 1 April 2017 and 31 March 2018, and includes data for Quarter 4 2017/18 within the quarterly series of bulletins. Data is also presented from 1 April 2015, when contract reports were first submitted.

As of 30 April 2018, the SSRO had received contract reports for 141 contracts that became QDCs/QSCs between 1 April 2015 and 31 March 2018, which the analysis is based on.

The estimated total contract price for contracts that became QDCs/QSCs in 2017/18 was £2.7 billion, and £19.5 billion overall. The average estimated contract profit rate of QDCs/QSCs decreased from 10.62 per cent for QDCs/QSCs in 2016/17 to 8.47 per cent for QDCs/QSCs in 2017/18.

The next publication in this series of statistical reports is the Quarterly Bulletin Q1 2018/19, which is scheduled for publication on 16 August 2018.



Updates to the Defence Contract Analysis and Reporting system (DefCARS) and reporting guidance

The SSRO reviews its reporting and DefCARS guidance and the functionality of the system on a regular basis and discusses priorities for improvement with stakeholders. On 25 July we released a DefCARS update that incorporates a number of system improvements and published an updated version of the guidance. Three of the major developments are detailed below.

‘Potential QDC/QSC’ feature

This provides earlier access to DefCARS for defence contractors who wish to complete draft reports prior to a QDC/QSC being entered into.

The MOD and SSRO will not review a potential QDC/QSC report or raise issues on this. Once a contract has been entered into, contractors can notify the SSRO who will convert the potential QDC/QSC into an actual QDC/QSC in DefCARS.

Training feature

This allows defence contractors to create practice contracts and reports to train their DefCARS users. The SSRO will continue to deliver training sessions in addition to this.

Compliance functionality

This improvement to the functionality of DefCARS integrates the MOD’s and SSRO’s review of defence contractor report submissions into the system. MOD and SSRO DefCARS users can now raise specific issues on submitted reports, and defence contractors can respond directly in the system. This does not alter the compliance methodology applied by the SSRO, but integrating the process into DefCARS enables greater security, transparency and efficiency around managing compliance issues.

The functionality includes a suite of email notifications and on-screen icons to alert users to compliance issues raised on reports and highlight the stage at which the SSRO and the MOD are in the review process.

Updated guidance

We have updated the [DefCARS Reporting guidance and system user guide for defence contractors \(Version 4\)](#). The changes to the guidance are largely to explain the use of new features described above. The new version of the guidance is available on the SSRO website, and accessible through DefCARS.



If you have any questions about how to access DefCARS or the associated guidance please contact the SSRO at helpdesk@ssro.gov.uk

Stakeholder engagement strategy

We are continuously seeking to improve how we undertake our engagement. The feedback in the survey has informed the development of the new stakeholder engagement strategy, and the frequency and mechanisms by which we engage with our stakeholders.

Many of the priority actions in the strategy are a response to issues raised by stakeholders through the survey and will build on the improvements made through our new approach to engagement over the last year.

The strategy details 8 key priorities for 2018/19, including:

- › Improving the experience of stakeholders participating in our consultations.
- › Advancing effective mechanisms for purposeful engagement with industry.
- › Further developing and broadening our relationships within the MOD.
- › Providing proactive support to stakeholders.



Looking forward, we will continue the momentum, focusing on the delivery of our statutory functions in an independent and objective manner with ongoing meaningful engagement with stakeholders.

Stakeholder survey and ongoing stakeholder engagement

We completed our first stakeholder survey in Spring 2018. The purpose of this was to help measure the effectiveness of the ways we engage with our stakeholders and provide insight into how these could be further developed and improved.

Stakeholder survey

The invitation to complete an online survey was sent to 271 stakeholders, of whom 92 provided their input. We heard from stakeholders across a range of seniority – from Chief Executive, Senior Managerial, Junior Managerial and Officer level.

This was followed up with 17 second round qualitative telephone interviews.

The report's findings were generally very positive. 55% of respondents had a more favourable opinion of the SSRO now than 12 months ago and 73% of respondents rated the SSRO's overall performance as good or very good in the past 12 months.

Respondents rated highly the SSRO's operational and face-to-face engagement such as our offer of support, the Operational Working Group (OWG) and the Reporting and IT Sub-Group, and site visits.

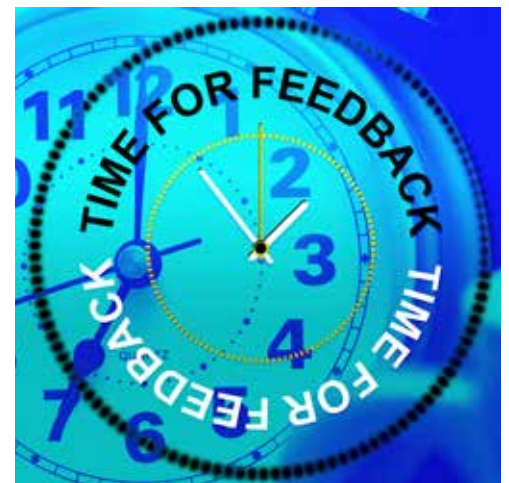
Respondents rated the SSRO's staff highly for professionalism (88%), approachability (89%) and continuity of staff dealing with an issue (84%).

However only 20% of respondents would speak highly of us to others whilst 57% would be neutral and so we recognise that we have more to do.

Areas respondents highlighted for improvement included:

- › enhancing the experience of stakeholders participating in our consultations, increasing the opportunities for face-to-face engagement;
- › addressing some concerns expressed by stakeholders about the SSRO's staff skills mix and contracting and defence sector experience;
- › continuing to develop and broaden our relationships particularly within the MOD; and
- › better demonstrating our willingness to listen to subjective judgements from experienced industry professionals to supplement our quantitative evidence base.

One of our three corporate values is transparency. In line with this, we have published [a report on the stakeholder survey](#), which provides an anonymised overview into what stakeholders said.



General Data Protection Regulation

We completed the necessary preparatory work on our information management and data protection policies and procedures ahead of the General Data Protection Regulation (GDPR) coming into force on 25 May. We now manage all personal information provided to us in full compliance with the requirements of the GDPR and in a way that enables individuals to exercise their rights in respect of their own data.

We have published a new [Personal Information Charter](#), which can be found on our website.

Whilst preparing for the GDPR, we also reviewed and updated the explanation of how we handle the confidential and commercially sensitive information we receive and how we meet our obligations under the Freedom of Information Act 2000. This can be found on our website with the above Charter.



Notable dates

JULY	AUGUST	SEPTEMBER	OCTOBER
16 Annual Report and Accounts 2017/18 published	16 Publication of Quarterly qualifying defence contract statistics: Q1 2018/19	25 Reporting and IT sub-group	17 Operational Working Group
		27 Board meeting	30 Senior Stakeholder Forum

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