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Introduction from the Chairman

I am pleased to announce that the Minister for Defence Procurement has extended my term of appointment by two years, until 2 January 2022. I am clear that this is an endorsement of the whole organisation and our efforts over the last two and a half years to improve engagement with stakeholders and focus on the effective delivery of our statutory functions.

This emphasis on good engagement and a focus on our functions will continue throughout the period covered by our latest Corporate Plan. The Plan includes seven objectives that are explicitly linked to the delivery of one or more of our functions. Two significant pieces of work in the Plan are our review of contract profit rates and our review of reporting requirements. Engagement via our Operational Working Group is already underway on both those reviews and a public consultation will take place from January to March 2020.

Since the beginning of the year I have had a series of meetings with stakeholders, which have taken in leaders from the prime defence contractors and the Ministry of Defence (MOD) ministerial team and senior officials. Our Board and panel members have also attended site visits to several defence facilities and we have presented to a range of audiences, including to the Advanced Command and Staff Course at Shrivenham, which gave the UK's future military and MOD leaders an overview of the SSRO and our work, the Society for Cost Analysis and Forecasting, and Cranfield University's Defence Acquisition Management MSc course.

Finally, we recognise how very important our people are in delivering on our corporate plan objectives and we have recently published our workforce strategy.

Regards



Notable dates

JULY	AUGUST	SEPTEMBER	OCTOBER
1 Baseline Profit Rate methodology consultation opens	15 Publication of Quarterly qualifying defence contract statistics: Q1 2019/20	18 Operational Working Group workshop on Review of Legislation	16 Operational Working Group and workshop on cost risk adjustment
2 Operational Working Group workshop on profit principles		26 Board meeting	29 Senior Stakeholder Forum
10 Reporting and IT sub-group and compliance methodology workshop			
16 Annual Report and Accounts 2018/19 published			



Review of the Legislation

The SSRO will provide a set of recommendations in June 2020 to inform the Secretary of State for Defence's planned review of the Defence Reform Act 2014 and the Single Source Contract Regulations 2014. The recommendations will largely be based on the findings of our reviews in relation to contract profit rates and reporting requirements and the SSRO will not be undertaking a comprehensive review of all aspects of the legislation.

Review of contract profit rates

Our review of contract profit rates seeks to codify an agreed set of principles, rooted in economics and corporate finance, to inform the determination and monitoring of contract profit rates that support value for money and fair and reasonable prices. In 2019/20 we will seek to further refine our methodology by reviewing the activity, company size and data quality criteria used to select comparator group companies used in the baseline profit rate assessment. We will also consider matters relevant to the range of the cost risk adjustment and how it is navigated. This will align with our planned work to review our pricing guidance on risk, providing an opportunity to examine relevant concepts and terminology, and drawing on work being undertaken by the MOD on how the risk in contracts can be assessed.

Review of reporting requirements

Our review of reporting requirements will consider the intended purpose of reported information, how it is being used and whether requirements are proportionate. In 2019/20, we intend to focus our detailed work on overhead reports, the defined pricing structure, and amendments and variance.

Updates to the pricing, referrals and reporting guidance

Pricing guidance

The SSRO has updated its [guidance on determining contract profit rates](#) and on [Allowable Costs](#) in QDCs and QSCs, to incorporate both the new rates announced by the Secretary of State and other changes for 2019/20.

The guidance on adjustments to the baseline profit rate and the Allowable Costs guidance are statutory guidance to which the MOD and its contractors must have regard to when determining the contract profit rate or whether costs are Allowable in qualifying defence contracts.

New versions of both guidance documents were published on 18 March 2019 and apply to QDCs and QSCs agreed on or after 1 April 2019. They incorporate the baseline profit rate and other rates to apply from 1 April 2019 as announced by the Secretary of State and the changes for 2019/20 that were published in January 2019 following a public consultation.

Referrals guidance

The SSRO has a duty under the Defence Reform Act 2014 to issue legally binding determinations or opinions in response to referrals from the MOD or from a contractor. In 2018 and 2019 the SSRO reviewed its referrals guidance on opinions and determinations.

We considered procedures applied by other regulators with adjudicative functions, opinions given, and determinations made since the last guidance update, and views expressed by internal and external stakeholders. We consulted publicly on proposed guidance changes from December 2018 to January 2019.

The [revised guidance](#) will apply to any requests received after 1 April 2019 for opinions or determinations in respect of qualifying defence contracts and qualifying sub-contracts, replacing the existing guidance in those areas.

Reporting guidance

The [most recent version of the Reporting Guidance is version 6](#), which was published on 15 May 2019. The main changes made in version 6 are:

- › new guidance on when supplier reports are required;
- › new guidance on when reports become due; and
- › updated guidance on the Quarterly Contract Report (QCR) and Interim Contract Report (ICR).

The SSRO reviews the guidance, provides updates to DefCARS on a regular basis and discusses the priorities for improvement with stakeholders. The SSRO expects to make the next update to guidance in autumn 2019. To improve user access, the SSRO intends to split it into separate documents but will consult on this proposal in the summer.



Planned SSRO engagement with stakeholders during 2019/20

Dates are shown in chronological order from the expected date of commencement.

Key: ■ = working paper, ▲ = consultation, ◆ = Operational Working Group, ● = Public, ► = Reporting and IT Sub-group

Project/Activity	Type of engagement	Topic	Who engaged	Weeks	From	To
Pricing guidance	■	Allowable Costs, uncertainty and risk	◆	4	10 Jun	5 Jul
Review of contract profit rates	▲	Clarifying and refining the BPR methodology	◆●	8	1 Jul	23 Aug
Reporting guidance	▲	Four review topics	►	6	early Jul	mid Aug
Compliance methodology	■	Methodology changes	►	4	early Jul	early Aug
Review of contract profit rates	■	Profit principles	◆	4	mid Jul	mid Aug
Review of reporting requirements	■	Three review themes	◆	4	2 Sep	27 Sep
Review of legislation	■	Emerging areas of focus, other than those covered under separate review projects	◆	4	2 Sep	27 Sep
Review of contract profit rates	■	Cost risk adjustment	◆	4	mid Sep	mid Oct
Pricing guidance	▲	Allowable Costs, uncertainty and risk	◆●	8	14 Oct	6 Dec
Compliance methodology	▲	Methodology changes	◆●	8	mid Oct	early Dec
Referrals guidance	▲	Guidance changes	◆●	6	mid Oct	late Nov
Reporting guidance	▲	Four review topics	►	6	mid Dec	late Jan
Review of legislation	▲	Recommendations to the Secretary of State	◆●	12	early Jan	late Mar
Statistics	To be confirmed	Statistics on completed contracts	►	TBC	TBC	TBC

OWG regular meetings* and workshops: 2 Jul (10:30-12:30); 18 Sep (14:00-16:00); 16 Oct* (14:00-16:00); 20 Nov (14:00-16:00)

R&IT regular meetings* and workshops: 10 Jul (11:00-13:00); 10 Jul* (14:00-16:00); 5 Nov* (14:00-16:00)

SSRO Engagement

Engagement is fundamental to the SSRO's evidence-based approach to its work and as part of this approach we regularly visit contractor and MOD facilities to help add to our knowledge and understanding. We are grateful for the invitations we receive and for the time contractors have given to us on our visits.

The SSRO has recently visited Thales in Crawley, Leonardo in Yeovilton, MBDA in Bolton, and QinetiQ in Farnborough. The SSRO Board and panel members attended a strategic update in April at BAE Systems Maritime Services at HMNB Portsmouth.



SSRO Board and panel members with their hosts BAE Systems at HMNB Portsmouth

Annual Qualifying Defence Contract statistics: 2018/19



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 2018 and 31 March 2019 and includes data for Quarter 4 2018/19 within the quarterly series of bulletins. Data is also presented from 1 April 2015, when contract reports were first submitted.

The SSRO was notified of 214 contracts that became QDCs/QSCs by 31 March 2019. Contractors have one month after the date the contract

becomes a QDC to submit reports, and as of 30 April 2019 the SSRO had received contract reports for 201 contracts that became QDCs/QSCs between 1 April 2015 and 31 March 2019, on which the analysis is based. This comprised 169 QDCs and 32 QSCs, across 98 different contracting companies.

The estimated total contract price of QDCs/QSCs was £3.8 billion in 2018/19, and £26.8 billion overall. The average estimated contract profit rate of QDCs/QSCs decreased from 8.70 per cent for QDCs/QSCs in 2017/18 to 8.51 per cent for QDCs/QSCs in 2018/19.

The next publication in this series of statistical reports is the Quarterly Bulletin Q1 2019/20, which is scheduled for publication on 15 August 2019.

Corporate Plan for 2019-2022

Following engagement and consultation with stakeholders we published on 4 April our Corporate Plan for 2019–2022.

The Plan focuses on the effective delivery of the SSRO's statutory functions and again includes seven objectives that are explicitly linked to the delivery of one or more of our statutory functions. There are two supporting objectives related to stakeholder engagement and resources, both of which are essential to successful delivery.

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

Our emphasis on effective engagement and continuously improving how we engage will continue throughout the life of this Plan. We have prioritised our work and activities in consultation with industry and the MOD and we will use their feedback and input as a key part of the evidence base in developing the delivery of our statutory functions. In the table on page 3 you can see our planned corporate plan engagement with stakeholders during 2019/20.

We have recently published an [abridged version of our new workforce strategy](#).

SSRO support

The SSRO provides a range of support and assistance to defence contractors to help them understand the requirements of the regulatory framework and to enable them to provide good quality data in the contract and supplier reports.

New contractor on-boarding

As part of our proactive support to contractors with QDCs and QSCs we offer an on-boarding session to all contractors with their first QDC or QSC. The on-boarding session includes an introduction to the SSRO and the single source regulatory framework, and a demonstration of the DefCARS system, focusing on the Contract Initiation Report. We undertook more than twenty of these sessions in 2018/19 either at the SSRO's offices or at contractors' facilities.

We would always encourage new QDC/QSC contractors to take up our on-boarding offer.

93% of respondents to the SSRO's 2018 Stakeholder Survey who had had an on-boarding session were quite or very satisfied with the assistance provided.



SSRO Helpdesk

Our SSRO Helpdesk handled over 500 queries from stakeholders in 2018/19. 94% of respondents to the SSRO's 2018 Stakeholder Survey who have used the helpdesk were satisfied with the assistance provided, 56% were very satisfied.

If you have any questions about DefCARS or the associated reporting guidance please contact the SSRO Helpdesk at helpdesk@ssro.gov.uk or Tel 020 3771 4785.