



TAILORED REVIEW OF THE
SINGLE SOURCE
REGULATIONS OFFICE

Contents

Overview	3
Executive Summary & Recommendations	6
Chapter 1: Introduction and Background	11
Purpose of the Review	11
Process.....	11
Acknowledgements.....	12
About the SSRO and Single Source Defence Contracting.....	12
SSRO Regime	14
Penetration of the Regime	16
Are the functions of the SSRO still required?.....	17
Delivery Model	19
Future Option of Establishing the SSRO as a Non -Ministerial Department (NMD)	20
The SSRO in a devolved context	20
SSRO and the UK's exit from the EU.....	20
Chapter 3: Performance, Effectiveness and Efficiency	22
Objectives and Functions.....	22
How the SSRO measures delivery performance.....	22
Performance against target and objectives	23
KPI table	23
Performance on Referrals.....	24
Performance on baseline profit rate recommendation to Secretary of State.....	25
Performance on Guidance Notes.....	26
Performance on Defence Contracts Analysis and Reporting System (DefCARS)	26
Further Observations on Performance.....	28
Improvement to Performance Targets	28
Does the SSRO have the skills it needs to deliver effectively?	29
How the SSRO works with the industry	30
Operational Efficiency	31
SSRO Budget	31
Out-sourcing	33
Digital working.....	33
Conclusion on efficiency	34
Chapter 4: SSRO's Governance	35

Overview - Roles and responsibilities	35
Corporate Governance best practice	35
SSRO's Internal Governance.....	36
The Board	37
Transparency	39
Diversity and Inclusion	40
Gender diversity	41
Chapter 5: MOD's Sponsorship and Oversight of SSRO.....	42
External Governance and Oversight of the SSRO by the MOD	42
Overview of MOD framework for oversight of single source regime and SSRO ...	42
Effectiveness of Governance and Oversight.....	43
The wider relationship between the SSRO and the MOD	49
SSRO Framework Document.....	49
Annex A.....	51
Terms of Reference (FINAL 11th April 2019)	51
Annex B.....	57
Sources of evidence	57
List of Interviews	58
Annex C.....	60
UKGI Corporate Governance Checklist	60

Overview

1. This report sets out the findings and recommendations of the Tailored Review of the Single Source Regulations Office (SSRO). The Defence Reform Act 2014 created a new statutory framework governing Single Source Procurement and the SSRO - an independent Non-Departmental Public Body (NDPB) - to be the custodian of that framework.

2. The review was carried out by UK Government Investments (Defence), who conducted desk-based research and consulted widely with SSRO members and executives, SSRO's MOD stakeholders and industry representatives through interviews. Quotes referenced throughout this document refer to stakeholder feedback, unless otherwise stated. References to 'best practice' refer to the central government guidance and controls that mandate and guide the activities of Arms-Length Bodies, as well as how their home departments must manage them (e.g. Managing Public Money, Cabinet Office Code of Good Practice 2017). The review considered the continuing need for, performance and governance effectiveness of the SSRO and its relationship with its sponsoring Department, the MOD.

3. This review has found that there is a continuing need for the SSRO. Its role is generally well understood, and the current delivery model – an independent non-departmental public body – is still deemed appropriate. Although there is room for further improvement, the SSRO is performing its statutory duties effectively and efficiently. Internal governance was found to be robust, in line with best practice, and being applied effectively.

4. The review has, however, found that the arrangements in the MOD for the oversight and holding to account of the SSRO for delivery performance are unclear, and not always in line with best practice. Consequently, the SSRO is not sufficiently aware of MOD priorities; nor is it being held to account appropriately.

5. The review team has made several recommendations to improve the relationship between the MOD and the SSRO and to strengthen the MOD's oversight of the SSRO, including that:

- The MOD establish a dedicated sponsor team, separate to the policy team, to be solely responsible for sponsorship of the SSRO and for holding it to account for delivery against its Corporate Plan; and
- Subject to further consideration to ensure that it does not create a conflict with the SSRO's ability to fulfil its statutory functions, that the Secretary of State appoints a sponsor representative to the SSRO Board from a non-procurement function of the MOD (or from another government department with a role in defence) as either a full member or as an observer on the Board.

7. A summary of all the recommendations is set out below:

Chapter 2: Function and form of the SSRO

1. Structure is fit for purpose – the SSRO should continue to operate as an independent Non-Departmental Public Body.

Chapter 3: Performance, Effectiveness and Efficiency

2. Arrangements for handling referrals – SSRO should ensure operational readiness in case of an uptick in referrals, reviewing arrangements in place for handling a higher volume of cases. Conversely, they should consider how they maintain appropriate capability in-house if referrals were to become even more infrequent.
3. Use of DefCARS across MOD – SSRO should work closely with MOD to develop regular DefCARS reporting.
4. Review of performance measures – SSRO should review performance metrics with the aim of introducing revised performance measures for 2020/21 at the latest. Consideration should be given to KPIs used by economic regulators, and a revised set of KPIs should be agreed with the MOD before finalising.
5. Development of final output targets – although the SSRO is an enabling body, it should work with MOD to identify targets against which its contribution to embedding the single source regime could be measured.
6. Reciprocal secondments – the MOD's commercial teams and the SSRO should consider sharing knowledge and experience through reciprocal secondment programmes.
7. Recruitment - SSRO should also seek to recruit persons with relevant experience from both industry and the MOD.
8. Benchmarking of salaries – although operating in a niche area, maintaining some benchmarking of salaries paid and offered would help ensure salaries remain in line with comparable ALBs.
9. Back-office services – SSRO should liaise with the MOD to identify any potential areas for sharing back office services with other MOD ALBs.

Chapter 4: SSRO's Governance

10. The SSRO Board – consideration should be given to the issues and papers discussed at Board level as some areas of discussion appear too routine to warrant full board consideration.
11. Board appointments – given some non-executives are coming to the end of their term, MOD should work closely with the Chair to ensure a range of skills and experience is maintained. Consideration should also be given to longer, and staggered Board appointments, given the specialist nature of the SSRO's work.

Chapter 5: MOD's Sponsorship and Oversight of SSRO

12. Embed Quarterly Performance Meetings – the sponsor team should hold (at least) quarterly meetings with the SSRO (chaired at a sufficiently senior level) to demonstrate the importance MOD attaches to holding the SSRO to account.
13. Sponsorship function – should be appropriately resourced to carry out its functions effectively.
14. Membership of SSCRS – although the SSRO are now invited to attend SSCRS as observers, membership and terms of reference of the group should be reviewed to enable it to function effectively, including regular meetings taking place.
15. Separation of sponsor and policy team – MOD should establish a dedicated sponsor team, separate to the policy team, to be solely responsible for holding the SSRO to account for delivery against its Corporate Plan.
16. Board composition - subject to further consideration to ensure that it does not create a conflict with the SSRO's ability to fulfil its statutory functions, the Secretary of State should appoint a sponsor representative to the SSRO Board from a non-procurement function of the MOD (or from another government department with a role in defence) as either a full member or as an observer.
17. Working relationship - the SSRO and MOD should work together to review working relations and information flows to ensure their working relationship is as effective as possible.
18. Contact between SSRO and wider MOD teams – MOD should provide direct contact between the SSRO and delivery bodies (such as DE&S, ISS and SDA) to ensure that the regulations and role of the SSRO are fully understood across the MOD.
19. Update Framework Document – the new sponsor team should agree a new Framework Document with the SSRO as a matter of priority.

Executive Summary & Recommendations

1. The SSRO was created in 2014 on the instruction of the Defence Reform Act of the same year as, in effect, the custodian of the statutory principles that value for money is obtained from single source defence contracts, whilst industry receives a fair price for the same. 177 contracts with a combined value of £23bn are now subject to the regulations.

2. As to the **continuing need** for SSRO, around 50% of defence contracts are single source, and the need to ensure value for money is obtained for the taxpayer remains paramount. The single source regime continues to offer a significant improvement over the 'Yellow Book' regime it replaced, which suffered from a lack of the right incentives and cost transparency, according to the Currie Review (2011).

3. The success of the single source regime relies on the SSRO carrying out its functions. If the SSRO did not exist, it (or something like it) would need to be created. In conclusion, the Single Source functions of the SSRO as set out in the Defence Reform Act 2014 and the Single Source Contract Regulations are still required.

4. In terms of the delivery model we concluded that the SSRO, as an arms-length body of MOD, remains the most appropriate. It still meets the tests for a non-departmental public body (NDPB), providing for an appropriate level of independence from the MOD and industry. **We recommend the SSRO continues to operate as an independent NDPB established by statute.**

5. In terms of its **performance and effectiveness** we found SSRO's role was clear and that it was generally well understood by stakeholders. The SSRO's objectives and functions are set out in statute, and the legislation mandates many of the procedures. We found that the current management team are focussed on delivering these statutory functions.

6. Despite some initial teething problems, the SSRO has performed its duties well. It is delivering its objectives and statutory duties effectively, meeting 14 of its 17 key performance indicators in the last financial year, and results from a recent survey show that 73 per cent of stakeholders' rate SSRO's performance as good or very good.

7. Although there have been fewer referrals than expected (only 6 since it was established) we found that SSRO's handling of cases was deemed to be good. The SSRO are aware of the challenge of maintaining their capacity to deal with referrals, and of the risk of them being stretched if there were a sudden increase in numbers. **We recommend that the SSRO should ensure operational readiness in case of an uptick in referrals, reviewing the arrangements in place for handling a higher volume of cases. Conversely, they should consider how they maintain appropriate capability in-house if referrals were to become even more infrequent.**

8. We found SSRO's performance at setting the baseline profit rate to be good, with an effective and open methodology, which is being continuously refined. Similarly, the SSRO is performing well in relation to guidance notes, although some stakeholders

believe there is room for further improvement, encouraging sharper and more concise guidance.

9. Single source contractors are required to submit statutory reports on each of their qualifying contracts on the SSRO's Defence Contracts and Reporting System (DefCARS), a bespoke digital system. We found DefCARS to be a significant improvement on the original system and note that the SSRO continues to develop and enhance it. It has now achieved a good level of compliance with the reporting requirements from industry participants.

10. We noted that DefCARS is a mine of management information and that it has the potential to be used more widely by the MOD. **We recommend that SSRO works closely with MOD to develop regular reporting from DefCARS to provide insight to the MOD's commercial and policy function.**

11. Whilst we found that the SSRO is delivering its objectives and statutory duties effectively, including meeting its corporate target, we agree with the observation of some stakeholders that the SSRO's corporate objectives do not appear to be sufficiently stretching, with many focussed on process or intermediary outputs. **We recommend that the SSRO reviews its performance metrics with the aim of introducing revised performance measures for 2020/21 at the latest. Consideration should be given to KPIs used by economic regulators, and a revised set of KPIs should be agreed with the MOD before finalising.**

12. We also noted that there are no targets against which to monitor the SSRO's contribution to progress in embedding the single source regime (e.g. achieving 100% application of regime to contract penetration) or realising value for money in single source contracts. Whilst we recognise that the SSRO is an enabling body, **we recommend that it should work with the MOD to identify targets against which its contribution to embedding the single source regime could be measured.**

13. ***In relation to skills***, we found that whilst stakeholders generally agreed that the SSRO was currently delivering its objectives effectively, stakeholders outside the SSRO believe the SSRO would benefit from having staff with a greater understanding and experience of defence contracting. Whilst SSRO's view has been that recruiting people with defence contracting experience may be perceived as a conflict of interest, we did not find this a compelling reason to limit recruitment of such individuals. **We recommend the MOD's commercial teams and the SSRO should consider sharing knowledge and experience through reciprocal secondment programmes.**

14. We looked at ***the relationship between the SSRO and industry***. We noted that the early stages of the Regulations had been characterised by differences of opinion between industry and the regulatory body, in part prompted by the SSRO's sometimes confrontational public tone but found that relations between the SSRO and industry were now good and improving.

15. ***In relation to efficiency***, we concluded that the SSRO's operational structure and corporate functions enable it to deliver efficiently, and that it has the commitment and processes in place for assessing the scope for further improving delivery efficiency.

Overall its budget and staffing look appropriate for the functions it is responsible for and its costs are a very small fraction of the value of the single source contract market.

16. On staff costs, the SSRO needs to pay sufficiently to recruit and retain the skills essential to that role. From wider experience of arms-length bodies we note that the staff costs are typical of those we would expect for a specialist arms-length body. Although operating in a niche area, **we recommend maintaining some benchmarking of salaries paid and offered to help ensure salaries remain in line with comparable arms-length bodies.**

17. The review found that the SSRO has embraced digital working, with the successful replacement in March 2017 of the Excel based system for filing statutory reports on qualifying contracts with DefCARS, an online digital system. We found that the SSRO continues to develop and enhance the system, making it easier for users.

18. The review also found that the SSRO aims to maximise its operational efficiency by utilising out-sourcing opportunities to support its in-house skills in back office functions and that much of its corporate support is already outsourced or procured through government framework contracts. **We recommend that the SSRO liaises with the MOD to identify any potential areas for sharing back office services with other MOD arms-length bodies.**

19. We reviewed the **governance** of the SSRO, looking at respective roles, responsibilities and governance structures and comparing those with best practice. In relation to **the SSRO's internal governance**, we found SSRO to have properly established the governance structures required and set out in the 2014 Framework Document. The SSRO Board operates independently of MOD and discharges SSRO's functions, ultimately accountable to the Secretary of State for Defence. The Board is supported by audit, regulatory and referrals committees, and an executive committee, which are all appropriate given its compliance and regulatory oversight functions.

20. Overall, we found the governance arrangements to be robust, in line with best practice, and being applied effectively. The Board is effective in holding executive management to account and in providing leadership.

21. We found that the Board was well constituted and chaired, with an appropriate mix of skills and understanding, and appropriate level of discussion. However, **we recommend consideration should be given to the issues and papers discussed at Board level as some areas of discussion appear too routine to warrant full board consideration.**

22. We noted that the last Board effectiveness review in June 2018 found the SSRO Board to be operating effectively and independently and that there are robust policies and procedures in place. We also noted that some non-executives are coming to the end of their terms. Noting that it is the Secretary of State's responsibility to appoint the non-executive members, **we recommend that the MOD work closely with the Chair to ensure that a range of skills and experience is maintained.** We also noted that, whilst the Act provides for appointment periods of three to six years, to date all appointments have been at the lower threshold. Given the specialist nature of the

SSRO's work, we also **recommend that the MOD considers longer, and staggered appointments,**

23. We reviewed *the governance and oversight of the SSRO by the MOD*. The review team looked at how the governance arrangements are working in practice and compared both the processes and their application against best practice.

24. We found that SSAT – the principle form of contact between the Department and the SSRO– was overstretched because of its wide role in both overseeing the application of the regulations and acting as sponsor to the SSRO. The need to focus on other priorities has meant that the sponsorship role has suffered.

25. The sponsorship function at the SSAT is managed at a relatively junior level. Whilst there are working level meetings on an ad-hoc basis between the SSAT and SSRO as needed, there are no regular quarterly or monthly performance monitoring meetings to monitor the SSRO's performance, which is recommended best practice. Nor did we find any evidence of non-financial delivery performance reporting to the MOD, other than in the Annual Report and Accounts.

26. In line with best practice **we recommend that the sponsor team has at least quarterly performance meetings with the SSRO and that these are chaired at a sufficiently senior level to demonstrate the importance the Department attaches to holding the SSRO to account** (typically quarterly meetings are chaired at Director or Director General level). **We also recommend that the sponsorship function is appropriately resourced to carry out its functions effectively.**

27. The Single Source Contract Regulation Steering Group (SSCRSG) is the senior MOD authority on the implementation of single source procurement reform and SSCRs. Whilst the Steering Group was supposed to meet at least every 2 months, or more frequently if required, we found that in practice it meets infrequently (it has only met once in 2019). We understand that the cancellations were due to unavailability of key members who were considered mandatory attendees for it to be considered quorate. **We recommend that the terms of reference and membership of the SSCRSG is reviewed to ensure that it can function effectively, including by meeting regularly.**

28. There is a broad consensus amongst stakeholders that the operational independence of the SSRO in carrying out its functions was essential to the credibility and operation of the single source regulatory regime. We did, however, observe that there are concerns that the SSRO has over-emphasised its independence. We further observed that this can act as an obstacle to the effective delivery of the single source regime. The over-emphasis of independence restricts the opportunities for collaborative engagement between the SSRO with industry and especially the MOD, and it undermines the ability of the MOD to hold the SSRO to account for delivery.

29. It is a requirement across Government for sponsor departments to have strong oversight of their independent arms-length bodies. Overall, we found a lack of clarity around the MOD's relationship with the SSRO and that the sponsorship function is not providing the strong oversight one would expect. MOD priorities are not, therefore,

fully communicated to the SSRO. Nor is the MOD monitoring the SSRO's performance against agreed plans and holding it to account.

30. In line with good practice for the sponsorship of arm's-length bodies across Whitehall, **we recommend that the MOD establish a dedicated sponsor team, separate to the policy team, to be solely responsible for sponsorship of the SSRO and for holding it to account for delivery against its Corporate Plan.** Under this model the policy function should continue to report on the effectiveness of the overall single source regime within the context of MOD's broader commercial strategy.

31. The review team also considered whether it would be beneficial for the MOD to have a sponsor representative on the SSRO Board. UKGI also recommend that sponsor Departments appoint a non-executive to the sponsored body. This practice has been widely adopted by departments for assets where UKGI has a shareholder/sponsorship role. The purpose of the role is to inform discussion and strengthen relations with the sponsor department, supplementing the activities of the sponsor team, provided it does not create a conflict with the SSRO's independence mandate. Subject to further consideration of this risk, **we recommend that the Secretary of State appoints a sponsor representative to the SSRO Board from a non-procurement function of the MOD (or from another government department with a role in defence) as either a full member or as an observer on the Board.**

32. In relation to wider relations between the MOD and the SSRO, we found that the reliance on SSAT for all communications with the SSRO has meant that the SSRO has relatively little contact with the department beyond SSAT. We found that relations between the SSAT and the SSRO were working reasonably well, although **we recommend the SSRO and MOD work together to review working relations and information flows to ensure their working relationship is as effective as possible.** We also heard that the experience of working with SSRO by MOD teams involved in referrals or opinions was positive. But the evidence suggests that understanding of the new regime and of the role of SSRO has not been embedded throughout the Delivery bodies. We noted the SSRO's ambition to broaden and deepen its engagement with the MOD and that various MOD stakeholders are supportive of that. Therefore, **we recommend that the MOD provides direct contact between the SSRO and these delivery bodies and works with the SSRO to ensure that the regulations and role of the SSRO are fully understood across the MOD.**

33. Finally, we note that a refresh of the 2014 Framework Document is now overdue. Understandably it has been put on hold pending the conclusion of this report. **We recommend that the new sponsor team should agree a new Framework Document with the SSRO as a matter of priority.**

Chapter 1: Introduction and Background

Purpose of the Review

1. Good corporate governance requires that public bodies are efficient, effective and accountable, and provide value for money. The Government's approach to public bodies' reform for 2015 to 2020 requires that public bodies should be subject to a Tailored Review (TR) at least once during the lifetime of a Parliament. This was the first Tailored Review of the Single Source Regulations Office (SSRO) which was established in 2014 as an executive Non-Departmental Public Body (NDPB) sponsored by the Ministry of Defence (MOD).
2. In line with all such reviews, this Tailored Review of the SSRO has assessed the continuing need for the SSRO, delivery performance, and the effectiveness of the control and governance arrangements in place to ensure the SSRO and MOD are complying with recognised principles of good corporate governance. We specifically excluded the single source legislation and regulations from the review. (The legislation was subject to a review which reported in 2017 and is now subject to a further review by the MOD that is scheduled to be completed in December 2020).
3. The SSRO was prioritised by the Cabinet Office as a Tier 3 organisation for this Review. The Review was carried out in accordance with Cabinet Office guidelines in 'Tailored Reviews: Guidance on Reviews of Public Bodies' (March 2016). The Terms of Reference for this Review are at Annex A.

Process

4. The Review was carried out by a small team from UKGI (Defence) on behalf of the MOD. The review team were completely independent from the MOD sponsor team. A member of UKGI (Defence) acted as the Senior Responsible Owner for the review to oversee and provide guidance to the review team. The review team consulted him and maintained regular contact with the Cabinet Office Public Bodies Reform Team, the SSRO and other key stakeholders throughout the process.
5. A report by the National Audit Office - '*Improving value for money in non-competitive procurement of defence equipment*', published on 25 October 2017 - considered the role of the SSRO in the context of how the MOD had responded to the need to deliver better value for money for the taxpayer for non-competitive procurement and whether it is on the path to success. The review team have taken the findings of that report as context and a starting point for this Tailored Review. We have, however, also looked at the SSRO's work prior to that report to gain a historical perspective on how the SSRO has evolved in the relatively short time since it was established.
6. The methodology included:
 - Conducting desk research of key documents (e.g. The enabling legislation, the SSRO's Strategy, Corporate Plan and Annual Reports);
 - In consultation with the SSRO and MOD, the review team identified relevant stakeholders and twenty-four individuals from the SSRO, MOD and the defence industry were interviewed;

- The team also attended a workshop at the SSRO's offices which enabled them to speak to staff members to gain an in-depth understanding of how the body operates;
- Members of the review team also observed meetings of the SSRO's Board, Regulatory Committee and Executive Committee, and of the MOD's Single Source Contract Regulations (SSCR) Operations Group, which supports the SSCR Steering Group ("the senior MOD authority on the implementation of single source procurement reform and SSCRs"). We were unable to observe a meeting of the steering group as meetings scheduled during the six months of the review were cancelled.
- Liaising with the Single Source Advisory Team (SSAT), the internal MOD team responsible for oversight of single source policy and sponsorship of the SSRO, with specific enquiries about the SSRO's work e.g. on financial and governance issues; and
- The review team gave the SSRO the opportunity to comment on the review's emerging conclusions and recommendations, sharing an early draft report with them in August at the same time as it was circulated for comment in MOD.

7. All the conclusions and recommendations in this review are based on an assessment of this evidence base. A list of sources of evidence, including interviews is at Annex B.

Acknowledgements

8. The review team would like to thank all those who took time to contribute to the Review. Throughout the process, the team worked closely with the SSRO and the SSAT in the MOD and were grateful for their full and active engagement.

About the SSRO and Single Source Defence Contracting

9. As recorded in the 2017 NAO report, the MOD requires high-quality equipment to fulfil its operational objectives, and support arrangements to maintain this equipment. It aims to procure through competitive markets, but circumstances can arise where only one supplier can meet demand for certain types of expensive and sophisticated equipment, or where security considerations require the Department to contract with a trusted national supplier. Historically, the MOD has found it difficult to secure value for money from procurement where there is no competition.

10. In 2011, an independent review commissioned by the MOD found that the non-statutory system put in place in the 1960s (the so-called Yellow Book, with oversight provided by the Review Board for Government Contracts) to monitor acceptable levels of cost and profit on non-competitive contracts was outdated and ineffective. The review identified inadequate incentives for efficiency, insufficient challenge of costs, weak governance and a lack of transparency.

11. In 2014, Parliament introduced the Defence Reform Act and a new regime was introduced for single source procurement. The aim was to increase transparency

around contract costs and improve the procurement and support of defence equipment by the MOD.

12. The SSRO was created in July 2014. It currently has 38 executive staff and six non-executive Board members. Its expenditure in 2018/19 was £6,133,000. All funding is paid by the MOD through grant in aid, but a small reduction in supplier profits is made to reflect Industry's contribution to the SSRO Funding.

13. The Single Source Contract Regulations, which underpin the work of the SSRO, took effect in December 2014. We understand that this statutory approach was ground-breaking, and that the legislative, principles-based approach is unique amongst NATO members.

14. The SSRO is an independent executive Non-Departmental Public Body (NDPB) established under Section 13 and Schedule 4 of the DRA 2014, which sets out its overall purpose, duties, functions and responsibilities. In delivering its statutory functions it provides, amongst other things that the SSRO:

- May appoint employees, pay its employees remuneration and allowances, and that employees of the SSRO are to be appointed on such other terms and conditions as the SSRO may determine;
- May determine its own procedures, subject only to specific procedures set out in the Act; and
- May do anything which is calculated to facilitate the carrying out of its functions or which is incidental to or conducive to the carrying out of those functions.

15. The SSRO acts as the custodian of the single source procurement framework. Its aims, as laid down in the Act, are to ensure when undertaking its statutory functions:

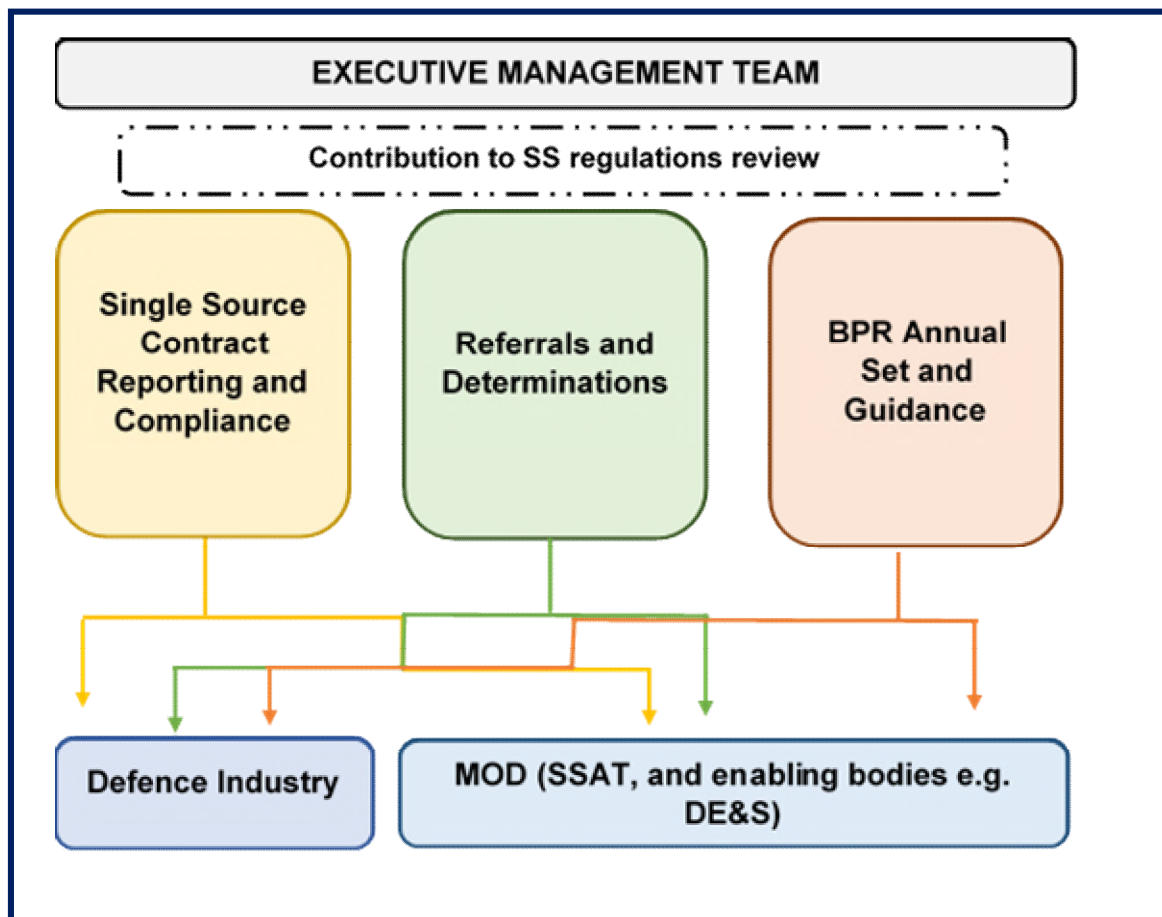
- that good value for money is obtained in government expenditure on qualifying defence contracts; and
- that persons who are parties to qualifying defence contracts are paid a fair and reasonable price under those contracts.

16. In summary its functions, which are set out in various places in Part 2 of the legislation, are to:

- keep the Single Source Contract Regulations (SSCRs) and Part 2 of the DRA under review;
- review the standard rates used to determine the profit rate used in pricing single source contracts, publish the review and make an annual recommendation for new rates to the Secretary of State for Defence on whether the rate should be adjusted;
- under section 19(2) of the DRA, calculate a recommendation to the Secretary of State for Defence on an adjustment to the baseline profit rate which represents industry's 50% contribution to the SSRO's funding from 2017;
- publish statutory guidance on allowable costs;

- publish statutory guidance on the Defined Pricing Structure;
- Publish reporting templates that provide statutory guidance, and are set out in the SSCRs;
- give opinions and make determinations;
- act as the appeal body for civil penalties and other determinations;
- publish statutory guidance on the determination of penalty amounts to be used by the MOD in issuing Penalty Notices; and
- provide analysis on behalf of the Secretary of State for Defence, including comparative benchmarks.

17. The SSRO focuses on three main areas of work in fulfilling its statutory role as summarised by the business processes diagram set out below:



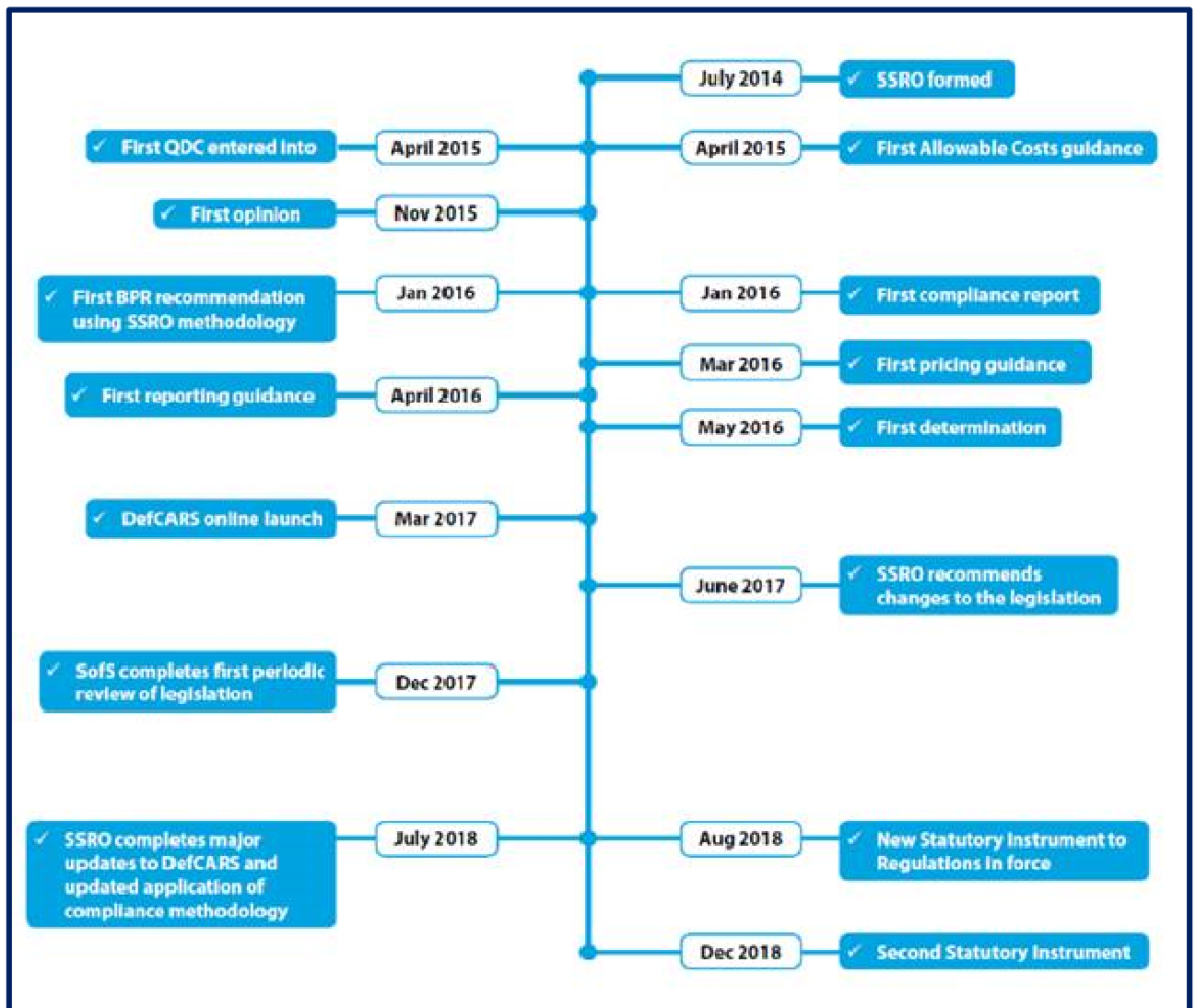
SSRO Regime

18. The Single Source Contract Regulations 2014 apply to the following contracts:

- Single source contracts worth £5m or more

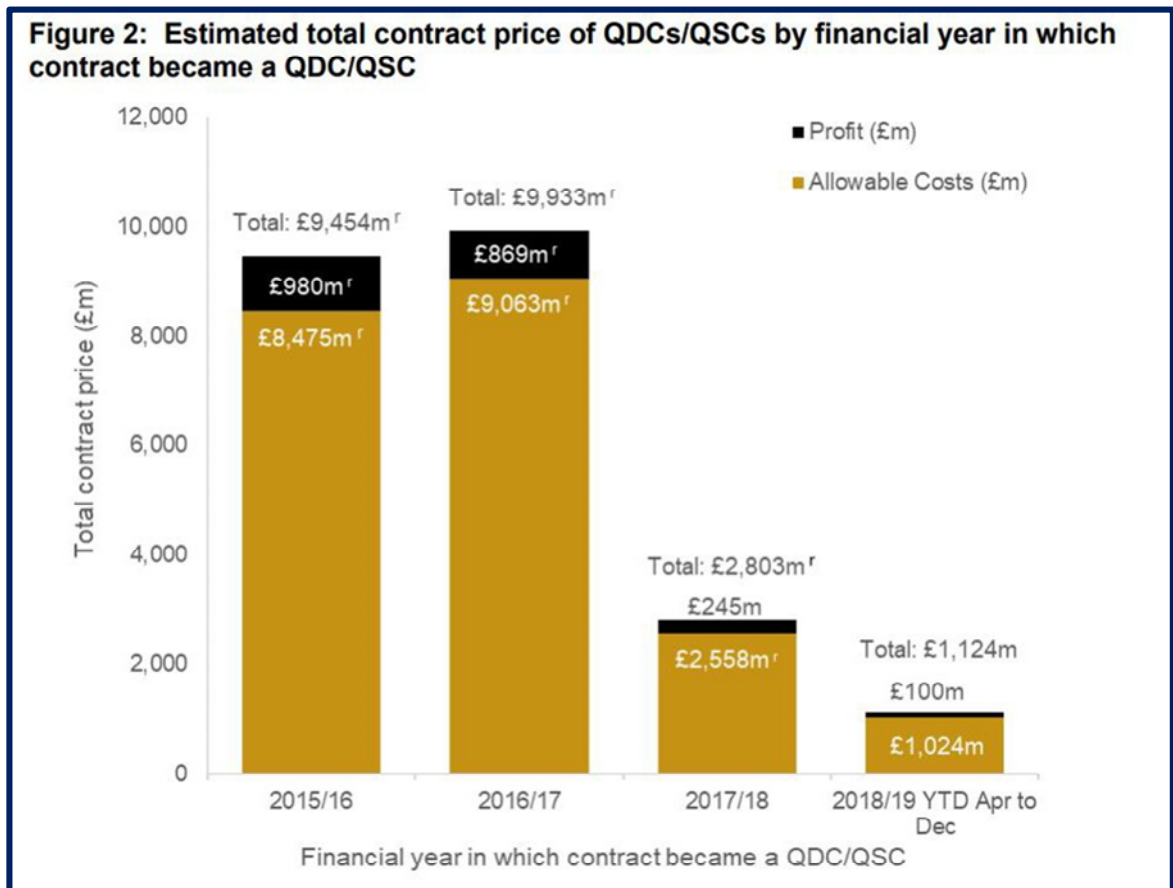
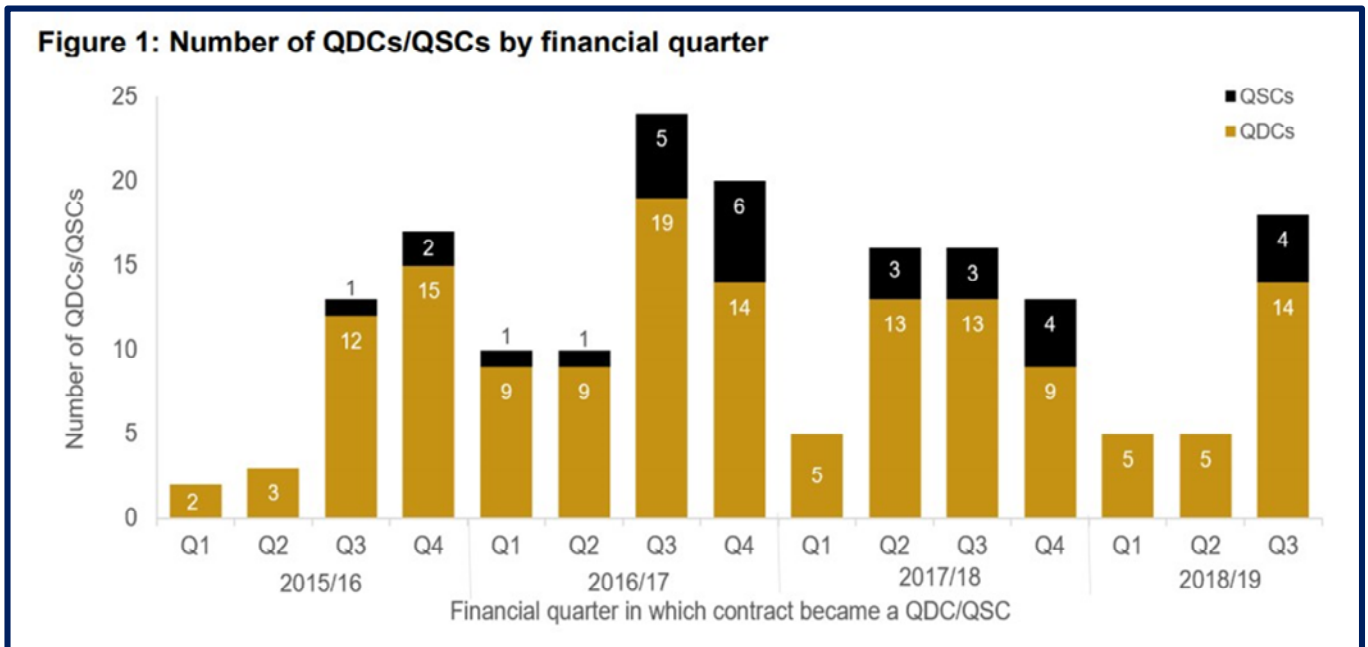
- Single source sub-contracts worth £25m or more
- Some single source contracts are automatically excluded:
 - Agreements with foreign government(s)
 - Contracts for the acquisition or management of existing land or buildings
- Contracts where the regulations would require disclosure of information to the SSRO that they are not cleared to see
- The Secretary of State can exceptionally exempt a particular contract
- Regulations can apply to existing contracts on amendment, but only where both parties consent, and this triggers a re-price.

19. The timeline below summarises key points in the implementation of the regulations and development of SSRO since the Defence Reform Act 2014:



Penetration of the Regime

20. As of 31 December 2018, the SSRO had received contract reports for 177 contracts that became QDCs/QSCs (147 contracts and 30 sub-contracts) since the first one in April 2015. They have a combined value of over £23 billion:



Chapter 2: Function and Form of the SSRO

1. This section examines whether there is a continuing need for the SSRO. It explores:

- Whether the functions of the SSRO as set out in the Defence Reform Act 2014 and the Single Source Contract Regulations are still required;
- Its status as an NDPB and whether that is the most appropriate delivery model;
- The remit of the SSRO within each of the devolved territories and whether there are any direct or indirect dependencies for delivery in a devolved context; and
- The possible implications on the SSRO of the UK exiting the EU.

Are the functions of the SSRO still required?

2. Despite the MOD policy to compete defence contracts wherever possible, single source, non-competitive procurement continues to form a significant part of the MOD's procurement. Between 2005/06 and 2010/11 MOD single source procurement averaged c. £7.6bn a year, 43% of MOD's total procurement (source: UK Defence Statistics 2011, table 1.15).

3. The NAO report in 2017 found that between 2013/14 and 2016/17, the proportion of single source contracts had stabilised at around 50%. We have heard evidence that this remains the case in 2019. We also heard that this might in part reflect continued consolidation within the defence sector, which means there are fewer suppliers able to manufacture major equipment.

4. The challenges to secure value for money from these contracts in the absence of competition (such as a lack of leverage to address poor performance, lack of transparency on suppliers' costs, and a lack of incentive for suppliers to make their operations more efficient) are the same as they were when the SSRO was established in 2014.

5. Indeed, broadly they are the same as they were when the Government introduced the 'Yellow Book' regime (an agreement between HM Treasury and the Confederation of British Industry, overseen by a review board) in 1968 to exert control over excess profits and costs in non-competitive procurement.

6. That regime was replaced by the current one following an independent review of the MOD's single source pricing regulations by Lord Currie in 2011 (published in Oct 2011) which concluded that the arrangements did not address the imperfections in the market arising from the lack of effective competition.

7. The Currie review and MOD team identified several shortcomings in the Yellow Book regime including:

- A heavy focus on regulating profits (c10% of price), but very little scrutiny on the costs (90%);
- no standard reporting requirements, poor transparency of supplier or contract performance;

- insufficient incentives for suppliers to identify and make efficiencies;
- gaming opportunities to over recover costs and to charge profit on profit for work subcontracted within the same group;
- suppliers able to charge MOD for overheads, including rationalisation and redundancy costs, even if not on contract, without consultation or approval; and
- it also found that the need for consensus regarding changes had led to stagnation in the regulations.

8. The new regime sought to address the shortcomings of the previous voluntary regime through the establishment of statutory rules on contract pricing, and greater transparency by requiring contractors to submit regular reports. The new regime puts the onus on contractors to demonstrate that their costs are appropriate, attributable to the contract, and reasonable, rather than, formerly, the onus being on the MOD to identify where this is not the case. The regime also allows the MOD to impose civil penalties if contractors do not comply with the transparency requirements.

9. As the NAO report noted, the regime provides opportunities to improve contract management. In particular:

- The ability to require full transparency of costs within suppliers' prices provides greater assurance on value for money;
- The regime provides statutory backing for efforts to negotiate down prices;
- Transparency of costs incurred during the contract allows identification of excess profits; and
- Building a knowledge base on costs informs future budgeting and contracting processes.

10. From the evidence we have seen, the review team observe that the new regime and establishment of the SSRO appears to have introduced rigour to single source procurement processes.

11. The MOD's objective is that the Regulations will eventually cover 100% of eligible contracts. Whilst the SSRO itself is not responsible for deciding which contracts are designated as qualifying defence contracts (QDCs) or qualifying sub-contracts (QSCs) (which is for the MOD, in agreement with suppliers), there is no doubt that the SSRO is central to the delivery of the MOD's and wider Government objectives for single source contracting.

12. Whilst we heard some views that the SSRO could be more efficient and effective (addressed in chapters 3 and 4) the evidence is that the SSRO has "*made a difference, importantly on transparency of costs*" and that it continues to play a vital role in the effective delivery of the single source contract regulations. For example, stakeholders noted the structured framework that the SSRO bring to pricing and costs - collecting valuable cost information, benchmarking the results, and therefore making more transparent information available to the MOD. As one stakeholder summed it up: "*The key industry players are very strong, so it has taken the SSRO time to establish itself,*

but it has become a confident organisation over time with a strong presence and is doing what it was set up to do.”

13. The SSRO was established as, in effect, the custodian of the single source procurement framework, with its core functions and processes set out in statute. The success of the regime relies on the SSRO carrying out its functions. If the SSRO did not exist, it (or something like it), would need to be created. **In conclusion, the Single Source functions of the SSRO as set out in the Defence Reform Act 2014 and the Single Source Contract Regulations are still required.**

Delivery Model

14. Established under Section 13 (1) of the DRA Act 2014 as a body corporate, the SSRO currently operates as an independent NDPB, sponsored by the MOD. This model was selected as the most appropriate when the SSRO was first set up less than five years ago. In line with Cabinet Office Guidance on the Classification of Public Bodies (April 2016), other delivery models were considered and ruled out, with independence from the Department a key consideration.

15. Lord Currie in his Review of Single Source Regulations (October 2011) stressed as a key recommendation that the SSRO should be an independent non-departmental public body sponsored by the MOD. In the subsequent Public Consultation (March 2012), industry responses strongly valued the requirement for the SSRO to be independent from MOD.

16. An executive agency was ruled out because it would be too close to the MOD, which would be unacceptable to industry and so likely would fail to achieve the best possible levels of compliance with the new regime. The MOD also considered enhancing the resourcing and remit of the Review Board, continuing in its non-statutory, advisory form. That was ruled out because pay and other government controls would constrain the SSRO's ability to recruit and retain a suitably skilled workforce.

17. The SSRO met the Cabinet Office's three tests for an NDPB:

- That it is a technical function which needs external expertise to deliver;
- That it needs to be, and be seen to be, delivered with political impartiality; and
- That it needs to be delivered independently of ministers to establish facts and/or figures with integrity.

18. The review has re-considered all the delivery model options against the Cabinet Office Guidance. Given that there has been no material change to the single source regime or the functions of the SSRO, **we have concluded that the current model remains the most appropriate.**

Recommendation 1: the SSRO should continue to operate as an independent NDPB established by statute.

Future Option of Establishing the SSRO as a Non -Ministerial Department (NMD)

19. NMDs are responsible for specialised regulatory or policy areas, and where political oversight is minimal. They are subject to light touch oversight of strategic priorities and governance from the government department responsible, but their funding is allocated directly from Parliament. This is the delivery model for economic regulators.

20. Several stakeholders made comparisons between the role of the SSRO and economic regulators (e.g. OfWat). Whilst it does not have the scale and powers of an economic regulator, the SSRO operates independently of the MOD and industry in recording compliance with, and providing oversight of, the regulations within a framework set in legislation, and it has functions which are analogous to some of the functions of a regulator (e.g. recommending the BPR, Determinations and Opinions).

21. One interviewee reflected that a case could be made for the SSRO to be an economic regulator as it is dealing with a market with monopoly suppliers, but noted that *“the SSRO would need to have at least some of the powers of the independent economic regulators (e.g. to fine companies for non-compliance) to be able to make a material difference, especially to get at costs and efficiency, and therefore to warrant such status”*.

22. In our view the SSRO’s current role does not warrant NMD status. Its status as an NDPB is enabling it to deliver its functions effectively. Whether or not a future re-classification as an NMD could be appropriate will depend in turn on the evolution of the single source regulations and wider policy decisions, both of which are outside the scope of this review.

The SSRO in a devolved context

23. Under the Terms of Reference, the review team were asked to consider the extent to which the SSRO’s functions are directly or indirectly delivered in a devolved context. We raised this with the SSRO executive team and with the SSAT in MOD. **From this we have concluded that Defence procurement is a reserved matter and that the SSRO does not have responsibilities to the Devolved Administrations.**

SSRO and the UK’s exit from the EU

24. The review also considered whether the UK leaving the EU could have an impact on how the SSRO carries out its functions. We did this by assessing evidence from the SSRO of what it had done to assure itself in this respect.

25. We found that the SSRO has conducted detailed work on the potential impact of various scenarios related to the UK exiting the EU and resulting impact on the organisation. Analysis covered financial, legal, regulatory implications and no deal planning. We noted that the Board had been involved and were periodically updated on progress.

26. The SSRO’s analysis is that whilst there will almost certainly be consequential changes required to domestic procurement regulations following withdrawal from the

EU, if only to remove references to EU instruments, the functions of the SSRO would not be affected materially by the UK leaving the EU. Whether any substantial changes are made to the regulations will depend on whatever bilateral or multilateral agreements the UK negotiates consequent on withdrawal.

27. In the meantime, defence procurement in the UK will remain subject to domestic regulations, primarily the Defence and Security Public Contracts Regulations 2011. Changes to defence procurement are unlikely to provoke changes to the Defence Reform Act 2014, given that controlling spend on single source contracts has been a focus of concern in the UK since long before it joined the EU.

28. Separately, we have noted that the MOD is fully aware of the risk that exit from the European Union may further limit choice of suppliers if it affects UK industry's ability to participate in collaborations. That would affect the balance between competitive contracts but would not affect the role of the SSRO.

29. In conclusion we have found that the SSRO has assured itself appropriately on the impact on the SSRO of the UK leaving the EU.

Chapter 3: Performance, Effectiveness and Efficiency

1. This section examines the SSRO's delivery performance. It explores:

- How SSRO's delivery performance is measured;
- How effectively the SSRO is performing against the role set out for it in legislation and whether it is meeting its objectives;
- Whether it has the skills to deliver effectively;
- How the SSRO works with industry; and
- The SSRO's operational efficiency (including outsourcing, shared services and digital capability).

Objectives and Functions

2. The SSRO's objectives and functions are set out in statute (see chapter 1). The legislation mandates the procedures for the SSRO in carrying out some of those functions. Otherwise the legislation provides for the SSRO to determine its own procedures.

3. From our evidence we found a broad consensus amongst stakeholders that the role of the SSRO as set out in legislation was clear and that its role was well understood by MOD and Industry, although there were *"small areas of ambiguity"*.

4. The current management team are focussed on delivering these statutory functions. This is confirmed by the Chairman in his introduction to the SSRO's 2018/19 annual report and accounts, highlighting delivery against them in 2018/19 as follows:

"Delivery against the statutory functions in the last financial year included:

- Providing the Secretary of State for Defence with their assessment of the appropriate rates to determine the contract profit rate for pricing qualifying defence contracts (QDCs) and qualifying sub-contracts (QSCs);
- Issuing guidance to MOD and industry that supports the regulatory framework and addresses issues which have been prioritised with stakeholders;
- Ruling on a referral from the Secretary of State to determine the extent to which the labour costs in a qualifying defence contract were Allowable;
- Developing the Defence Contracts Analysis and Reporting System (DefCARS), which holds a growing body of data: and
- Developing a draft data strategy to ensure that maximum benefit is derived from this data and associated analysis."

How the SSRO measures delivery performance

5. The SSRO produces a Corporate Plan at the start of each financial year setting out its strategy for the next three years. The SSRO consults with the MOD (and other parties) on its Corporate Plan but does not require MOD approval before publication.

6. As set out in its Framework Document, the plan must include:

- Key objectives and associated key performance targets;
- Key non-financial targets;
- A review of performance in the preceding year compared with outturns for previous years; and
- An assessment of risks and opportunities.

7. The SSRO is also required to operate management, information and accounting systems to enable it to monitor and report on financial and non-financial performance. We have observed that such systems are in place.

8. The SSRO monitors its performance against the targets set in this rolling three-year corporate plan, with regular reporting to the SSRO Board.

Performance against target and objectives

9. As reported in its Annual Report and Accounts for 2018/19 the SSRO is performing well in delivering its statutory functions and its corporate objectives. It met 14 of the 17 performance indicators set out in its Corporate Plan 2018-2021, including meeting its target of managing its financial expenditure to within 2% of its agreed corporate budget. Performance against targets was as follows:

KPI table

	Target	Achieved
1) Provide authoritative responses to referred matters within target timeframes		
• Final determination and opinions are issued within target timeframes	100%	✓
• Feedback from parties to a referral is positive and indicates satisfaction	100%	✓
2) Provide the Secretary of State with a recommendation of the appropriate baseline profit rate, capital servicing rates and the funding adjustment for each financial year		
• Publish appropriate information relating to the SSRO's recommendation following the Secretary of State's announcement	100%	✓
• Provide the SSRO's assessment of rates to the Secretary of State no later than 31 January preceding the financial year to which they apply	100%	✓
3) Issue guidance that supports the optimal working of the regulatory framework		
• Proportion of stakeholders who believe the SSRO's guidance to be clear and applicable	75%	✓
• Deliver an implementation plan for any changes required by the SSRO in response to the Secretary of State's 2017 review	100%	✓

4) Conduct targeted reviews of the Act and Regulations aimed at improving the functioning of the regulatory framework		
<ul style="list-style-type: none"> Deliver an implementation plan for any changes required by the SSRO in response to the Secretary of State's 2017 review 	100%	✓
5) Provide a platform that facilitates the efficient and secure submission of statutory reports		
<ul style="list-style-type: none"> An increase in user satisfaction with DefCARS as the SSRO's platform for submitting reports* <small>* Score of 74% achieved in the 2017/18 Stakeholder Survey. This KPI will be measured again in the 2019/20 Stakeholder Survey.</small>	75%	To be measured in 2019/20
6) Improve data quality and the reporting of information		
<ul style="list-style-type: none"> Proportion of contract reports submitted on time 	75%	✗ (72%)
<ul style="list-style-type: none"> Proportion of contract reports submitted that are complete and meet the requirements of the legislation at the first attempt (target 25%) 	25%	✓
7) Harness the power of data to support decision making		
<ul style="list-style-type: none"> Response to requests for provision of analysis or information provided within agreed timescales 	100%	✓
<ul style="list-style-type: none"> Increase in the use of SSRO's analysis 	100%	✓
8) Maintain effective and comprehensive engagement with our stakeholders		
<ul style="list-style-type: none"> Stakeholders consider the SSRO engages well 	75%	✓ (89%)
9) Access and use resources appropriate to the delivery of our functions		
<ul style="list-style-type: none"> Manage our financial expenditure to within 2% of our corporate budget 	100%	✓
<ul style="list-style-type: none"> Employee survey results for overall engagement 	60%	✗ (59%)
<ul style="list-style-type: none"> Average number of days spent per person per annum on training – 3 	100%	✓
<ul style="list-style-type: none"> GDPR audit assurance substantial or moderate 	100%	✓

10. The Annual Report and Accounts also records that in its last stakeholder survey, 73% of stakeholders rated SSRO's performance as good or very good.

Performance on Referrals

11. In 2018/19, the SSRO considered one referral at the request of the Secretary of State for Defence to determine the extent to which the labour costs in a qualifying defence contract were allowable. The contract in question concerned support and maintenance of equipment. The review was carried out in line with all statutory and other procedures and in a timely manner. The final report was published on the SSRO's website.

12. There have been only 6 referrals since the SSRO was established. The SSRO has published 4 Opinions and 2 Determinations. The expectation was that there would

have been more. We heard several views of why more had not materialised and there were different views on whether it was a net positive or negative that there had not been more. An explanation offered by several stakeholders was that *“The threat alone is useful to bring negotiations to conclusion as parties don’t want to spend time or money in arbitration.”*

13. In terms of the SSRO’s handling of the cases that had been referred to it, stakeholders, including a number who had been directly involved in a referral, were satisfied with the referral process and quality of arbitration. Comments from stakeholders included: *“The Referrals Committee were very knowledgeable and understood risk very well”* and *“Overall, it was a good experience”*.

14. We also noted the results of the SSRO’s stakeholder survey in 2018. In respect to referrals, the survey showed that 91% of respondents thought the guidance clear and applicable. Not surprisingly given the small number of referrals, only 13% had used the guidance and 10% had engaged with the referrals process.

15. To support a referrals committee the SSRO establishes a case team, drawn from across the other functions to investigate the referred matters and draft a decision. We found that the SSRO has been able, to date, to resource individual referrals appropriately. However, as one stakeholder noted *“they would be stretched if there were a significant increase in referrals”*.

16. We found that the SSRO were aware of the challenge of maintaining its capacity to deal with referrals, and of the risk of them being stretched if there were a sudden increase in numbers, but we were not assured that they yet had detailed contingency plans in place.

Recommendation 2: The SSRO should review its arrangements for handling referrals to ensure they contain arrangements for handling a higher volume of cases. We also recommend that they consider how they maintain appropriate capability in house if referrals were to become even more infrequent.

Performance on baseline profit rate recommendation to Secretary of State

17. The SSRO met its target to recommend a baseline profit rate to the Secretary of State for 2019/20 by the end January 2019. Its recommendation of 7.63% (up from 6.81% the previous year), was accepted and on 15 March 2019 the MOD announced the baseline profit rate to be used from 1 April 2019. SSRO’s recommended rates for the SSRO funding adjustment and capital servicing rates used in the capital servicing adjustment were also accepted by the Secretary of State. The SSRO is now reviewing contract profit rates, looking at whether the current approach to contract profit and its application support the aims of fair and reasonable prices and value for money.

18. We found that the SSRO has met this target each year. Whilst some stakeholders questioned the detail of the SSRO’s methodology, including the make-up of the basket of companies for benchmarking, the consensus was that the SSRO *“is working effectively in setting profit rates”*. Some stakeholders questioned whether the mechanistic approach to determining appropriate profit led to too much complexity and opportunity for challenge *‘Why not simply set it at a flat x%’* but we noted that other regulators take a similar ‘basket’ approach, which provides the openness required to

build trust that the process is balanced, and fair to industry and MOD alike. The review team also noted the SSRO's commitment to continuous refinement of the methodology and company selection process, which is subject to regular review.

Performance on Guidance Notes

19. In 2018/19 the SSRO reviewed three areas of its existing statutory guidance on Allowable Costs and the baseline profit rate and its adjustment, engaging with stakeholders and consulting publicly on proposed guidance changes. The revised guidance, which was published on 31 January 2019, applies to QDCs and QSCs entered into on or after 1 April 2019. They also published updates of their reporting and DefCARS user guidance in July and December 2018, which included guidance on a new training feature in DefCARS and a facility for contractors to start entering data before a contract becomes a QDC or QSC.

20. The SSRO's stakeholder survey (in Q1 2018) found that:

- 93% of all stakeholders had used at least one form of SSRO guidance;
- 75% of stakeholders that had used at least one form of SSRO guidance agree that it is clear and applicable (64% for Allowable Costs; 74% for profit rate adjustments; 87% for reporting and DefCARS; and
- Two thirds of respondents considered the process for reviewing guidance was fit for purpose.

21. We found that most stakeholders thought that the SSRO performed this function adequately or well. All stakeholders agreed that there was room for improvement. One stakeholder said that Guidance notes "*could be sharper, they are currently too long and wordy*" and that the SSRO "*should consider using more specific examples in their Guidance*", recognising the need to maintain commercial confidences. It was agreed that consultation with stakeholders on guidance had helped improve the process and the final outputs. There was, however, a challenge as to whether the volume of periodic updates was necessary.

Performance on Defence Contracts Analysis and Reporting System (DefCARS)

22. Single source contractors are required to submit statutory reports on each of their qualifying contracts. They do so on the SSRO's Defence Contracts Analysis and Reporting System (DefCARS).

23. We found that the SSRO continues to develop and enhance DefCARS to optimise access and support analysis and reporting. A notable enhancement last year was that they integrated the MOD and SSRO's review of defence contractor report submissions into the system, allowing the MOD and SSRO to raise compliance issues, and for industry to respond, within the system. They also introduced further automatic validation within the system.

24. The SSRO published its annual Compliance Report in September 2018. This considers the extent to which persons subject to reporting obligations complied with

these obligations and gives a sense of how the regime is operating. The report shows that:

- The SSRO had been notified of 152 Qualifying Defence Contracts (QDCs) and Qualifying Sub-Contracts (QSCs) as at 31 March 2018;
- As at 30 April 2018, reports had been submitted for 141 QDCs or QSCs;
- Consisting of 667 contract reports and 199 supplier reports;
- The 141 contracts were placed with 70 individual contracting companies across a total of 46 Global Ultimate Owners;
- 76 per cent of contract reports and 82 per cent of supplier reports, submitted for the years 2015/16 to 2017/18, were submitted in accordance with the reporting timeframes set out in the Regulations;
- At June 2018, the SSRO had identified one or more potential issues in 74% of contract submissions (reduced to 40% after initial discussions);
- In total, since 2015/16 the SSRO has raised 2,853 queries with contractors on contract report submissions, and a further 218 issues on supplier reports;
- 2,489 (87%) of the contract queries have been resolved to date;
- The MOD has responded to all contract reporting issues referred to it by the SSRO in the period from April 2016 to June 2018; and
- Contractors have made progress on improving submission quality with a significant reduction in the number of queries on reports for contracts that became QDCs or QSCs in 2017/18 compared to 2016/17.

25. The evidence from stakeholders was that DefCARS is a significant improvement on the system first used by SSRO for collecting data, which was “*not intuitive*” and a burden to use. There was broad agreement that the system was getting better, but industry stakeholders pointed out “*the information requirements of the single source regime remained a burden on defence contractors and should be simplified and standardised wherever possible*”. We were assured by the SSRO that it expects to see continuing improvements in the usability of DefCARS, compliance and data quality.

26. As described by one MOD stakeholder, the reporting requirements are “*providing real additionality*”. We noted that DefCARS had the potential to be used as a unique source of management information on the performance and penetration of, and reliance on, specific defence suppliers to MOD. This functionality exists but the evidence suggests that it is under-utilised at present across MOD.

Recommendation 3: The SSRO should work closely with MOD to develop regular reporting from DefCARS to provide insight into the MOD’s commercial and policy function.

Further Observations on Performance

27. The evidence suggests that the Regulations are getting traction and that the SSRO is supporting the regime effectively. Several stakeholders flagged that this was still a young, growing organisation and that *“inevitably it has taken time for it to establish itself”*. Everyone agreed that there was still room for improvement. With one exception, the consensus was that the SSRO was now performing its statutory duties effectively: *“The SSRO is still a young organisation but it had made considerable improvements over the last 18 months and is now a credible body.”*

28. The stakeholder that questioned whether the SSRO was performing effectively did so based in part on their view that whilst the SSRO was clear on its role internally it *“places emphasis on non-essential work”*. We understood this to mean the relative weight given to the various statutory objectives, on which we would only observe that the legislation does not differentiate between the relative weight of the statutory responsibilities and it is for the SSRO to determine how to meet them.

29. From the evidence we have seen we conclude that the SSRO is meeting its statutory objectives and delivering its statutory functions effectively.

Improvement to Performance Targets

30. A few stakeholders questioned whether the SSRO’s targets were sufficiently stretching or were overly focussed on inputs and intermediary, procedural outputs. One stakeholder noted that it was *“easy to issue a BPR rate by a specific date, harder to get it right”*.

31. The review team share the view that the current targets appear insufficiently stretching or meaningful. We did, however, like the fact that the SSRO sought feedback from users on use of its various services (e.g. guidance notes, help desk) as well as its annual customer survey. The latter are worth building on.

Recommendation 4:

- **The SSRO should review its performance metrics with the aim of introducing revised performance measures for 2020/21 at the latest;**
- **They consider the measures used in other relevant organisations, including the economic regulators, to inform their view; and**
- **They consult with and agree the appropriate measures with the MOD before reaching a revised set of KPIs.**

32. We also noted that there are no targets against which to monitor the SSRO’s contribution to progress in embedding the single source regime (e.g. achieving 100% application of regime to eligible contracts) or realising value for money in single source contracts.

Recommendation 5: Whilst we recognise that the SSRO is an enabling body and cannot by itself deliver final output targets, which also rely on the MOD and industry, we recommend that the SSRO work with the MOD to identify targets against which its contribution to embedding the single source regime could be measured.

Does the SSRO have the skills it needs to deliver effectively?

33. Since being established in 2014, the SSRO has grown organically, relying on external resource in the early days, but progressively employing people in-house. At the 31st March 2019 the SSRO had 38 staff, comprising:

- An Executive Team of 5;
- 22 staff with the specialist skills to deliver the statutory functions; and
- 11 staff with a mix of general and specialist skills and knowledge to deliver corporate services.

34. Most of the staff have a background in audit, accountancy, finance and regulation. The in-house team is supplemented by outsourced contracts to support DefCARS, corporate IT systems, and HR and Finance transactional needs; and by the external members retained for referrals.

35. The SSRO are aware that in the past the MOD and industry had concerns about whether they had the necessary technical skills but are confident that *“the current team are knowledgeable and that they have the appropriate range of skills to do the job effectively”*.

36. The SSRO agree that industry and MOD defence procurement experience is critical and has recently appointed a defence advisor. They note the advantages of having defence contracting experience but set against the relative size of the organisation they tend towards buying in the expertise as needed and *“they work hard at getting third party views, especially from industry”*.

37. The SSRO keeps its staffing under review and has recently published its Workforce Strategy. This sets out a vision for an SSRO workforce that is skilled, agile and engaged. Amongst other things, they want: people who understand the work of the SSRO and the sector in which they operate; who can also work collaboratively, flexibly and across teams; are able to adapt quickly and confidently to changing business priorities and target skills and expertise where they are most needed.

38. Whilst stakeholders generally agreed that the SSRO was currently delivering its objectives effectively, we found that outside the SSRO, stakeholders remain of the view that the SSRO would benefit from greater understanding and experience of defence contracting. Whilst a *“shortage of such skills did not preclude the SSRO from discharging its role as defined by legislation”*, it would be able to deliver more effectively if it had more staff with experience of defence procurement and contracting. As one stakeholder put it *“they could help the SSRO understand how industry works [tactically], how they game things.”*

39. Stakeholders think that without people with experience of large-scale defence contracting, the SSRO cannot fully appreciate the context in which they are working. It *“limits them to providing narrow technical inputs within their narrowly defined roles”*, and in respect of opinions and determinations a lack of commercial understanding risks undermining the SSRO’s judgements.

40. We heard that one concern of the SSRO about recruiting people with defence contracting experience was the potential conflicts of interest and perceived threat to its independence. We do not find those concerns compelling. Simply having worked in industry is not a conflict of interest, and there are, of course, ways to manage potential conflicts should they arise. It is common practice for economic regulators to employ people who have worked in the regulated industry: *“economic regulators all benefit from recruiting poachers to be gamekeepers”*.

41. The review team observed that across the organisation relatively few appeared to have a background in defence procurement, and then only from an MOD perspective. From our observations, supported by comparison with the common practice of other regulators, we conclude that the lack of defence contracting experience at the SSRO is a significant weakness, undermining the credibility of the SSRO with its stakeholders. **Subject to resource restrictions and the need to have a balanced mix of skills and experience within the organisation:**

Recommendation 6: There should be reciprocal secondments between the MOD’s commercial teams and the SSRO.

Recommendation 7: The SSRO should seek to recruit persons with relevant experience from both industry and the MOD.

How the SSRO works with the industry

42. The 2017 NAO report found that in common with the experience in other sectors of industry subject to regulations for the first time, the early stages of the Regulations have been characterised by differences of opinion between industry and the regulatory body, in part prompted by the SSRO’s sometimes confrontational public tone. They also found the SSRO had also disagreed with its sponsor department, the MOD, about the former’s interpretation of its remit. All parties told the NAO that fresh efforts were being made to reset relationships as the parties better understand their roles.

43. The NAO also found that most suppliers by then had accepted the need to work within the Regulations, but that some were resisting them and their interpretation by the MOD and SSRO, not agreeing to contracts being subject to the Regulations or failing to provide information about costs and prices required by the SSRO. This review looked at both *if* and *how* things have moved on.

44. Evidence from stakeholders confirmed that the early years had been difficult. The change from the Yellow Book to the single source regime was described to us as *“a shock to MOD and industry”*. All stakeholders agreed that relationship between the SSRO, MOD and industry were now much improved. This has been attributed to the leadership of the current Chair, who has focussed on rebuilding relationships and trust, particularly with industry. The SSRO is now concentrating on delivering its statutory functions. It seeks to do so through open engagement with stakeholders: *“An important change under the new management team has been that they are engaged with and listening more to industry”*.

45. The SSRO has several stakeholder engagement forums:

- Operational Working Group

- Reporting & IT Sub-group
- Senior Stakeholder Forum
- Compliance Project Board

46. The Chair and CEO also regularly meet with senior stakeholders, there are public consultations and the SSRO has a telephone help desk for suppliers' subject to the Regulations. The SSRO has monitored positive feedback from its stakeholders on all of these.

47. Evidence from stakeholders presented a mixed picture of industry engagement with the regime and that there remained a reluctance amongst many suppliers to use QDCs. We noted that one challenge was in gaining agreement from contractors to bring existing contracts within the regime on amendment. We also found industry stakeholders still sceptical as to whether the Regulations themselves added value. One stakeholder suggested that "*Industry has accepted the regime and the SSRO but there remains a sense that they see the SSRO as an interloper, getting in the way of the cosy relationship between the MOD's buyers and Industry.*" But in terms of engagement with the SSRO, overall, we found that relations between the SSRO and industry were good and improving.

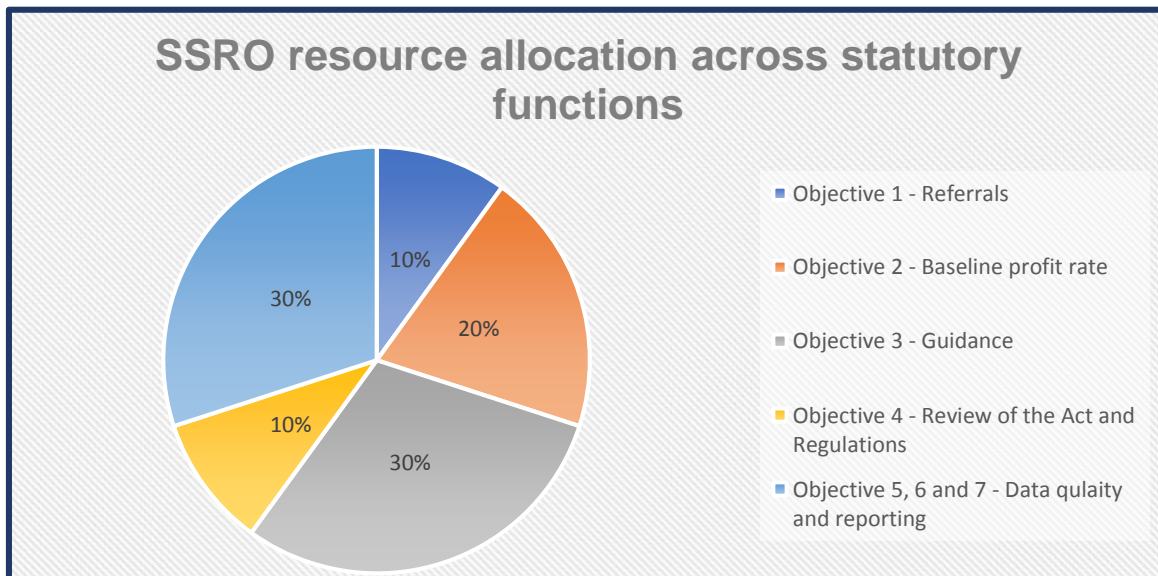
Operational Efficiency

48. The SSRO's functions are set out in legislation. The legislation does not differentiate between the relative importance of the various statutory functions. The SSRO is required to deliver them all. It cannot choose not to deliver one or other. Its effectiveness relies, therefore, upon the efficient management of its resources to meet each of its statutory duties.

SSRO Budget

49. The SSRO is funded through Grant in Aid. Board approval is required before the Accounting Officer formally submits a budget request to the Ministry of Defence. For 2019/20, the requested budget of £6.061m was approved. This excludes costs arising from referrals to the SSRO, which are normally funded separately by agreement with the MOD, which provides additional Grant in Aid for all referral related expenditure as it is required.

50. During 2018/19, expenditure of £62,000 (2017/18: £8,000) was incurred by the SSRO on referrals. The MOD provided additional Grant in Aid funding of £21,000 towards these costs, with the SSRO agreeing exceptionally to meet the remaining costs (£41,000) from its main Grant in Aid funding for the year. The SSRO spent £6,133,000 in 2018/19 (99 per cent of its total funding). The following chart shows the proportion of the SSRO’s budget allocated to its statutory functions in 2018/19:



51. The SSRO believes that it has reached a steady state and that recurrent costs are now largely fixed. Its main expenditure is staff costs (68%). At the 31st March 2019 the SSRO had 38 staff across all functions: an Executive Committee of 5 (including three executive Board members, the Defence Advisor and the Interim Director of Corporate Resources), supported by 22 staff delivering the statutory functions and 11 staff delivering corporate services. Other significant areas of spend in 2018/19 were accommodation (9%), IT (11%) and legal and professional (2%). The IT costs including one-off costs for the continuing development of the Defence Contracts Analysis and Reporting System (DefCARS). We would, therefore, expect IT expenditure to stabilise or reduce.

52. Overall, as more than one stakeholder observed *“the SSRO’s budget is a very small fraction of the value of the single source contract market”* - existing qualifying contracts have a combined value of over £23 billion.

53. The 2018/19 ARAC records total staff costs in 2018/19 of £4,182,000 (net of recovered secondment costs) compared to £3,786,000 in 2017/18. The overall increase is due to increasing in-house capability and reduced use of external expertise. The SSRO’s 2017/18 pay remit approved by Ministers provided for an across-the-board 1.5% cost of living salary increase for all staff, including senior management. The SSRO’s highest paid director’s total remuneration in 2018/19 was between £160,000 - £165,000. SSRO employee remuneration ranged from £25,600 to £129,000, with a median total remuneration of £77,287.

54. The roles at SSRO are mostly senior or specialised. Part of the reason for establishing the SSRO as an independent body was so that it can set its own pay scales to recruit and retain appropriate staff. As with other ALBs in a similar position, this results in higher remuneration than if the function had remained in the Civil Service.

55. Whilst it is difficult to benchmark the staff costs of the SSRO relative to other bodies, because it is operating in a niche area and needs to pay sufficiently to recruit and retain the skills essential for its specific role, we observed from our wider experience of arms-length bodies that the staff costs are typical of those we would expect for a specialist arms-length body, including economic regulators.

Recommendation 8: The SSRO maintains some benchmarking of salaries paid and offered to its executives and staff to ensure they remain in line with those for similar roles in comparable arms-length bodies.

56. We noted that during 2018/19 the average level of sickness absence at the SSRO was two days per employee per annum which compares favourably to the public-sector average of 9.8 days per annum.

Out-sourcing

57. We found that, as a small organisation, the SSRO aims to maximise its operational efficiency by utilising out-sourcing opportunities to support its in-house skills in back office functions. Much of the SSRO's corporate support is outsourced (HR, payroll and financial ledger services) or procured through government framework contracts (IT managed services). The SSRO is currently re-procuring its Finance and HR outsourced services contract. The SSRO also has several framework contracts in place for expert advice (e.g. legal advice), mostly using government support framework contracts, which provides cost-effective access to additional expert support as needed.

Recommendation 9: The SSRO liaises with the MOD to identify any potential areas for sharing back office services with other MOD arms-length bodies.

Digital working

58. The review also found that the SSRO has embraced digital working. One of the chief benefits of the Regulations is the transparency of information on costs for all contracts and the legislation sets out reporting requirements for qualifying contracts. The NAO report found that suppliers experienced difficulties relying on the early reporting templates provided to the SSRO by the Department.

59. The SSRO replaced that Excel based system in March 2017 with DefCARS, an on-line digital system. It was designed to be easier to use. Enhancements to DefCARS were brought online in August 2018, which enable the raising and resolution of queries in-system (i.e. the system flags to the person uploading the data whether sections have been correctly completed) rather than the SSRO having to raise queries on compliance at a later stage. The SSRO provides guidance on the system and a help desk and continues to work with stakeholders on improvements to the system. Stakeholders agree that the DefCARS system is a huge improvement on the original

system, which was not fit for purpose, and that whilst there is room for further improvement, it is now *“working well”*.

Conclusion on efficiency

60. Based on the evidence we have seen, we conclude that the SSRO's operational structure and corporate functions enable it to deliver efficiently, and that it has the commitment and processes in place for assessing the scope for further improving delivery efficiency.

Chapter 4: SSRO's Governance

1. This section looks at the SSRO's internal governance arrangements, and its approach to transparency and diversity. It considers:

- The SSRO's governance arrangements and whether they are aligned with best practice as set out by the Cabinet Office and UK Government Investments;
- The effectiveness of SSRO's internal governance;
- The transparency of the SSRO's corporate governance structure, procedures and decision making;
- The SSRO's approach to communications with its various stakeholders;
- The SSRO's approach to diversity and inclusion; and
- An assessment of the SSRO's gender diversity, in response to Gender Pay Gap Reporting.

Overview - Roles and responsibilities

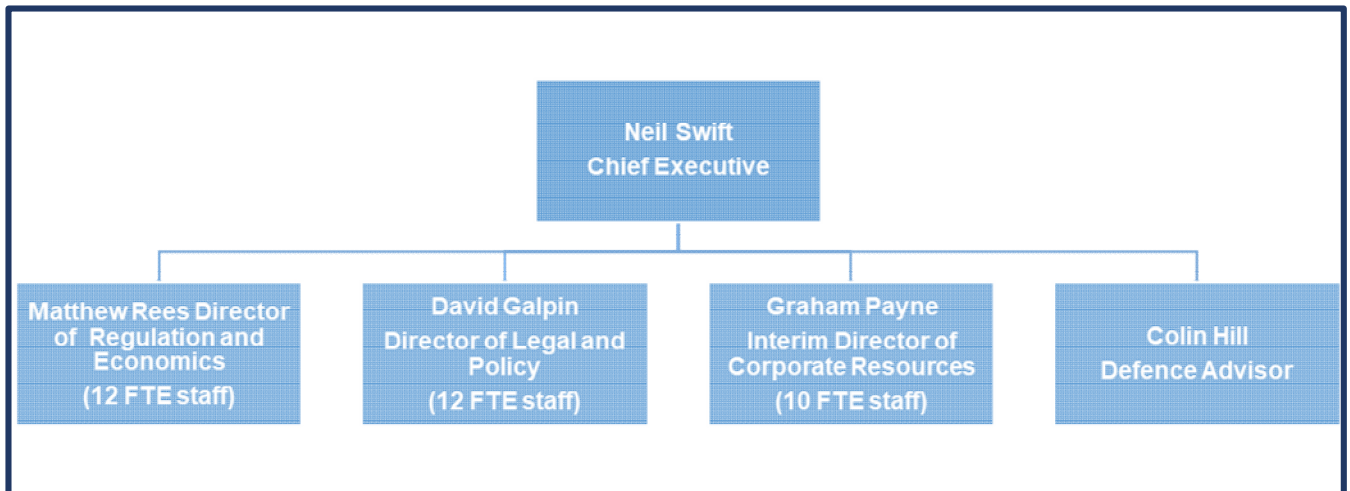
2. The roles, responsibilities of the SSRO and MOD, and the relationship between them are set out in the 2014 Framework Document. The Secretary of State is ultimately accountable to Parliament for the SSRO's business. Day-to-day responsibility has been delegated to the Minister for Defence Procurement. He appoints the Non-Executive Members of the Board, and consents to the appointment of all executive members (including the CEO and Director of Corporate Resources). The MOD's Permanent Secretary is the Principal Accounting Officer for the SSRO and designates the SSRO's CEO as Accounting Officer. The SSRO Board is responsible for the discharge of the SSRO's functions, providing strategic guidance to the Executive and ensuring effective governance and internal controls are in place. The MOD's Single Source Advisory Team (SSAT) oversees the application, and policy development, of the Regulations and is the Departmental sponsor for the SSRO, responsible for monitoring the performance of the SSRO.

Corporate Governance best practice

3. To measure 'best practice' in relation to corporate governance, the review team have assessed the SSRO's procedures and documentations against UKGI's Governance Checklist. The SSRO scores highly under most categories, and performs particularly well under 'Purpose, Strategy and Accountability', 'Remuneration and AO Obligations', and 'Organisational Performance'. It scores less well in relation to the reporting lines and communication between the SSRO and the MOD as part of the 'Sponsorship' function. The full checklist is attached at Annex C.

SSRO's Internal Governance

4. The SSRO is managed by Chief Executive Neil Swift who joined the SSRO in 2015, before being appointed CEO in May 2018. The work of the organisation is split up into four separate areas, as set out below:



5. The SSRO determines its own governance structures and procedures, subject to the provisions of the Defence Reform Act 2014. These are set out in the SSRO's published Corporate Governance Framework (reviewed annually by the SSRO Board, most recently in December 2018).

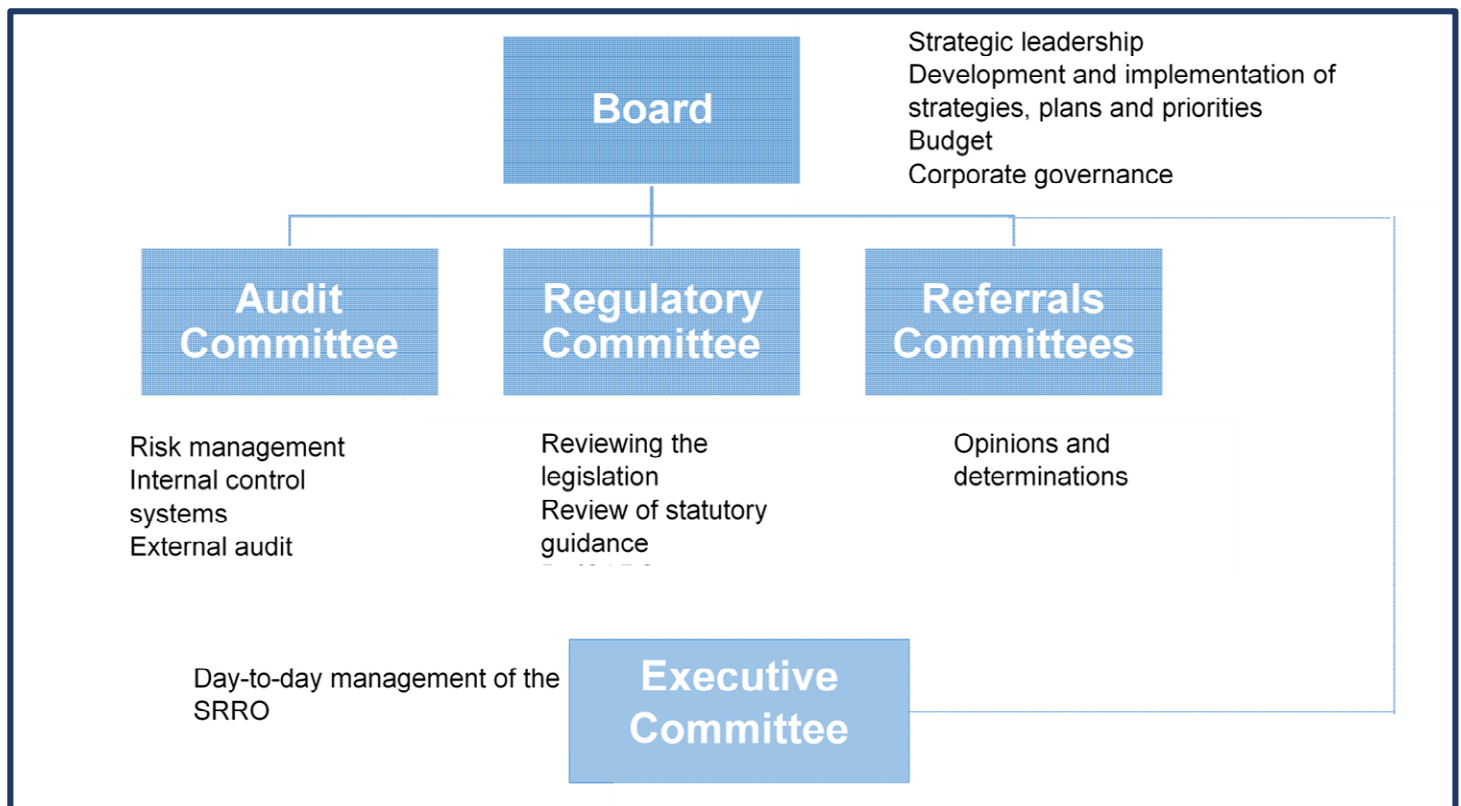
6. This Framework sets out that the Board is responsible for:

- the discharge of the SSRO's functions;
- providing strategic leadership, direction, support and guidance, and overseeing the development and implementation of strategies, plans and priorities for the SSRO, including approval of the Corporate Plan and oversight of its implementation;
- overseeing the development and review of the SSRO's aims and corporate objectives;
- allocating within the SSRO the budget that has been agreed by the MOD, ensuring that the SSRO uses resources efficiently and achieves value for money;
- monitoring the SSRO's performance and work, and ensuring that it receives and reviews regular financial and performance information concerning the management of the SSRO;
- is informed in a timely manner about any concerns about the activities of the SSRO; and provides positive assurance to the MOD that appropriate action has been taken on such concerns;
- observing high standards of corporate governance at all times, including by using the independent Audit Committee to help the Board to address key financial and other risks;

- putting in place effective arrangements to provide assurance on risk management, governance and internal control;
- ensuring that the SSRO operates within its statutory remit and the limits of its statutory authority and any delegated authority agreed with the MOD, and in accordance with any other conditions relating to the use of public funds;
- satisfying itself that plans are in place for orderly succession for appointments to the Board to maintain an appropriate balance of skills and expertise and ensure progressive refreshing of the Board;
- ensuring that the Department is kept informed of any changes that are likely to impact on the strategic direction of the SSRO; the attainability of its targets; any concerns about the activities of the SSRO; and determining the steps needed to deal with such changes; and
- ensuring that, in reaching decisions, the Board takes into account legislation and guidance issued by the MOD.

The Board

7. Board consists of a Chairman, five further non-executive members and three executive members. The Board and sub-committee structure is as follows:



8. The governance structure might appear disproportionately heavy for such a small organisation. However, on closer inspection, we found it appropriate for the circumstances:

- It is a statutory requirement for the SSRO to establish Referral Committees to investigate and give determinations and opinions on relevant matters referred to the SSRO. These are set up on a case by case basis. In 2018/19 the SSRO received and accepted one such referral and a committee was established accordingly;
- As set out in the 2014 Framework Document, the Board is required to have an Audit Committee. This is in line with best practice, including HMT's corporate governance code for central government departments, 2017;
- The Board set up the Regulatory Committee to provide oversight of the review of legislation, guidance and DefCARS, freeing up the main Board to focus on strategic issues and corporate governance; and
- Having a separate Executive Committee for day to day running of the business is standard practice.

9. The main Board meets six times a year. We observed that the Board is well-established and has a good mix of skills, knowledge and experience. The Executive provide the secretariat to the Board and ensure that a Board pack is prepared in advance of each meeting. We found these were well presented and circulated in good time.

10. We observed that the Board was well-chaired, with all members contributing to discussions, which were focussed on a series of papers for approval or noting. The non-executive appeared to have a good understanding of the subject matter (e.g. on BPR methodology) which enabled them to challenge the Executive effectively. In turn we observed that the Executive were responsive to the questions raised by the Board.

11. Stakeholders that had a view of the Board agreed that the Board generally worked well although *"there is a little too much focus on process"*. The creation of Regulatory Committee was important, in principle enabling the main Board to focus on strategic issues, but stakeholders did not agree that was happening in practice. As one stakeholder commented: *"The last board meeting was just several board papers for approval, so little strategic discussion – the Board needs to do more 'horizon scanning'"*.

12. From our observation of the Board we would agree that some agenda items (e.g. the data strategy) were more detailed than one would expect given that the SSRO's intention is for the main Board to focus on strategic decisions.

Recommendation 10: The SSRO Board satisfies itself that it is considering issues and papers at the appropriate strategic level.

13. From a compliance perspective, we note that the Code of Conduct for Board Members of Public Bodies is observed and that there are clear rules and procedures in place for managing conflicts of interest (e.g. the Chair asks about conflicts of interest at the beginning of each meeting and this is recorded in the Board's minutes).

14. We note that the last Board effectiveness review was undertaken by the Chair in June 2018, including an independent review by the Government Internal Audit Agency. The review found the SSRO Board to be operating effectively and independently and that there are robust policies and procedures in place to ensure its effective governance, risk management, independence and decision making.

15. We noted that some non-executives are coming to the end of their terms. We also observed that the specialist nature of the work of the SSRO takes time to understand fully. It would, therefore, make sense for non-executives to be appointed for reasonably long periods to make best use of their learning. Whilst the Act provides that appointment can be for between 3 and 6 years, we found that to date all appointments have been at the lower threshold.

Recommendation 11: As the Board is refreshed, the MOD work closely with the Chair to ensure that a range of skills and experience is maintained, and the MOD consider longer, and staggered appointments.

16. Overall, **our finding is that the SSRO has a robust set of governance arrangements in place which complies with Cabinet Office and UKGI guidelines, that these are being applied effectively, and that the Board is effective in holding executive management to account and in providing leadership.**

Transparency

17. There is an increasing focus on transparency throughout government, with the expectation that public bodies should be as open and transparent as they are able within data protection and other relevant laws, and that bodies will make their data as useful as possible to citizens, business, the voluntary sector and Government itself.

18. We found that the SSRO is committed to transparency. One of the SSRO's stated three core values, set out in their Corporate Plan and elsewhere is that they "operate openly and transparently, and we are proactive in engaging with stakeholders and the public. We ensure the confidentiality of sensitive information we hold is protected."

19. The review team looked at the SSRO's website. We found that the SSRO publishes a wide variety of documents on its website including:

- Its Corporate Plan;
- Its Annual Report and Accounts;
- Its Corporate Governance Framework;
- Transparency Reports (on spending outside prescribed limits);
- Agendas and minutes of Board meetings;
- Statistical Reports on single source contract;
- Guidance notes; and
- Consultations.

20. We read several of the documents. Overall, we found both the website and the individual documents to be clear and informative. We noted from the documents and from interviews with the SSRO their commitment to working closely with both the MOD and industry and that their *“actions will be informed by listening and understanding the needs and concerns of the MOD, defence contractors and sub-contractors alike.”* Evidence presented elsewhere in this report supports the conclusion that the SSRO is open and engages with industry stakeholders effectively, but that communication between the SSRO and the MOD needs further work.

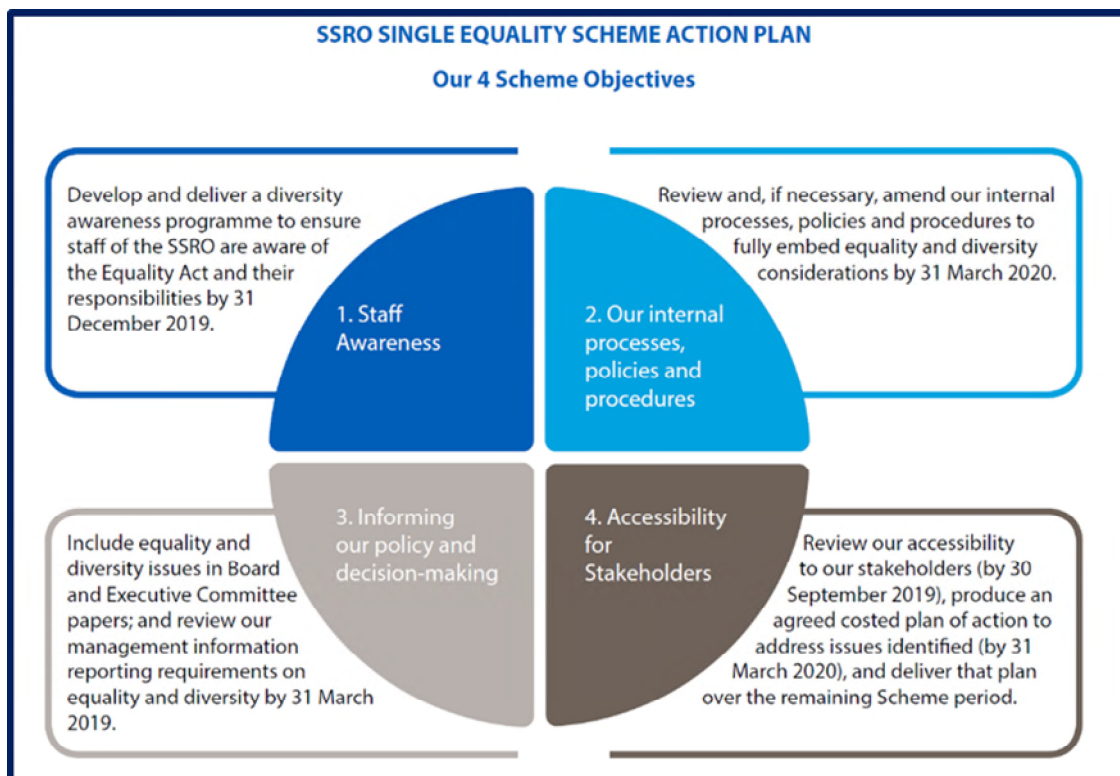
21. In terms of corporate governance, we note that the SSRO sets out its responsibilities and procedures in its Corporate Governance Framework Document 2018. It lays down the key responsibilities of the Board of the SSRO; the conduct expected of its members and staff; the Board’s powers of delegation; and the proceedings of the Board. As set out in that document the SSRO Framework will be reviewed annually to ensure that it continues to reflect best practice. It is published on the SSRO’s website as part of their commitment to openness and accountability.

Diversity and Inclusion

22. As a public sector body the SSRO has a responsibility to ensure it creates a diverse workforce (of people and views) which reflects and serves the UK in the 21st century. As with all employers in the UK, the SSRO is bound by the Equality Act 2010. We have noted that the SSRO Audit Committee review and considered the SSRO’s internal policies on equality in the workplace. In 2019 the SSRO published its first Single Equalities Scheme (SES). This captures the SSRO’s commitment to promoting equality and diversity and will apply until March 2022, at which point it will be subject to periodic review in accordance with best practice.

23. As a small organisation the SSRO priorities in their first SES cover the policies, procedures and processes covering the workforce, and interactions between the SSRO and stakeholders.

24. The SSRO has identified four overarching key objectives under which it believes an emphasis on continuous improvement can add most value and impact in promoting equality and diversity:



Gender diversity

25. The SSRO is too small an organisation for it to be required to conduct gender pay gap monitoring and reporting. Nevertheless, the SSRO have conducted the exercise, and have reported on the average composition of SSRO permanent employees in the 2018/19 Annual Report and Accounts, comparing to the prior year.

26. This shows that of the 37 permanent staff employed, 30% were female, a decrease on 2017/18 where 38% of 32 total staff members were female. The mean salary for females in 2018/19 was £69,229 which is 15% less than the mean salary for males at £76,125. They also report that female representation in senior grades as a proportion of staff is currently low. The SSRO are responding to this issue through the SES and a planned Workforce Strategy.

Chapter 5: MOD's Sponsorship and Oversight of SSRO

1. This section looks at the governance and oversight of the SSRO by the MOD. It considers:

- The arrangements in place for the MOD to provide governance and oversight of the SSRO and hold it to account for delivery on behalf of the Secretary of State;
- The effectiveness of those arrangements and whether they are aligned with best practice as set out by Cabinet Office and UK Government Investments;
- How the external governance and oversight could be improved; and
- Wider relationships between the SSRO and the MOD.

External Governance and Oversight of the SSRO by the MOD

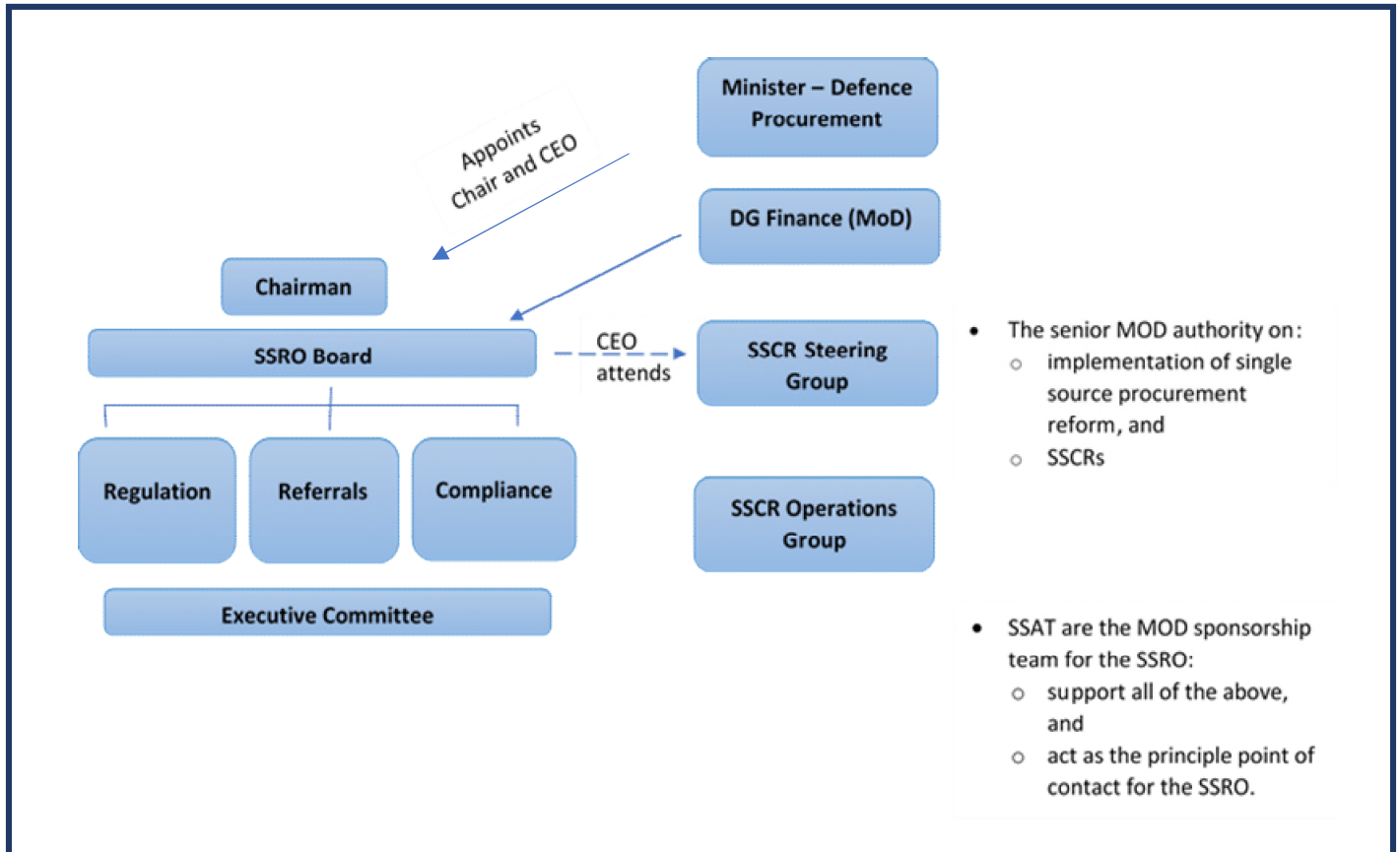
2. As referenced in Chapter 4, the roles, responsibilities of the SSRO and MOD, and the relationship between them are set out in the 2014 Framework Document. The MOD approves the SSRO's budget and is responsible for the appointment of the Chair and other non-executive members. The Framework provides that delivery of these responsibilities and holding the SSRO to account for its financial and delivery performance is to be provided by a dedicated sponsor team. That role is the responsibility of the Single Source Advisory Team (SSAT).

3. The Framework requires the SSRO to report financial and non-financial performance and the achievement of key objectives to the MOD. It is specifically required to provide the MOD with information quarterly (or at a reduced frequency acceptable to the MOD) that will enable the department to monitor: the SSRO's cash management; drawn-down of grant-in-aid; forecast outturn; and other data as required by HMT to meet standardised reporting requirements.

4. The Framework also provides that the SSRO shall consult with the MOD on its annual three-year rolling corporate plan and requires the SSRO to send the MOD its Annual Report and Accounts. In terms of meetings, it stipulates that the SSRO's performance is to be reviewed at an Accounting Officers meeting twice a year and that the Secretary of State or his responsible Minister is to meet the Chair a minimum of once a year.

Overview of MOD framework for oversight of single source regime and SSRO

5. The following diagram sets out the MOD's internal framework and how it interfaces with the SSRO's governance framework:



6. The Single Source Contract Regulation Steering Group (SSCRSG) was established in May 2016 as the senior MOD authority on the implementation of single source procurement reform and SSCRs. Its role is to set the strategic policy for the implementation of the SSCRs and monitor progress.

7. Although not included in its formal terms of reference, amended in 2019, we heard that it was used informally to determine the MOD view of the SSRO’s performance and identify opportunities for improvement. SSAT provide the secretariat to the SSCRSG, and the working level Operations Group, which supports the SSCRSG. Whilst the SSCRSG is an internal MOD body, chaired by DG Finance, we noted that the SSRO Chair and/or CEO have been invited to attend as observers since early 2018.

Effectiveness of Governance and Oversight

8. The review team looked at how the governance arrangements are working in practice and compared both the processes and their application against best practice. As noted in Chapter 4, an assessment of procedures and documentation against UKGI’s Governance Checklist highlighted issues in relation to the reporting lines and communication between the SSRO and the MOD as part of the sponsorship function.

9. We also compared the current arrangements for governance and oversight of the SSRO against the High-Level Principles agreed by MOD’s ExCo for the relationship between the MOD and its ALBs. These principles are informed by, and fully aligned with, best practice guidance from the Cabinet Office, HMT and UKGI. The comparison is set out in the following table:

Principle/preferred arrangement	Yes/no	Comment
Clear delegation of budget and responsibilities to a CEO and an independently-chaired Board with majority of independent Non-Execs, plus one representing the sponsor/ 'shareholder' (a suitably senior member of Head Office.)	In large part	Completely aligned other than that there is no sponsor NED
Relationship set out in a framework agreement.	Yes	Framework in place since 2014. Needs refreshing.
A defined and separate Shareholder/Sponsor in Head Office to build a close assurance and support relationship with the TLB	No	Policy and sponsor roles both carried out by the SSAT, which is principle point of contact between the SSRO and MOD.
A defined and separate relationship with customers. Need a formal commissioning process for the service of each Enabling Organisation and appropriate accountability mechanisms to customers/commissioners.	No in large part	The SSRO does not have customers, but it does have stakeholders in MOD responsible for defence contracts – e.g. DE&S. Although there is some contact, most relations are through the SSAT.
Enabling Organisations to develop their own corporate strategies – to be agreed with Board and Shareholder/Sponsor.	Yes	SSRO is responsible for its own Corporate Plan.
A standardised approach to corporate performance management through regular structured Assurance and Support meetings (e.g. with Shareholder/Sponsor, Chief Exec, Chair, Chief Finance Officer) based on standard management information against delegated and agreed KPIs.	No in large part	There are a few points of contact, but no regular structured performance monitoring meetings between the SSAT (the current sponsor) and the SSRO.

10. SSAT is the principle form of contact between the MOD and the SSRO. Not only is it responsible for sponsorship and oversight of the SSRO, but it also oversees the

application of the Regulations overall, providing policy advice to project teams in the MOD and acts as the liaison point between the Department and the SSRO on all matters related to the Regulations, including referrals.

11. The NAO report found that the amount of work required of the SSAT had led to it having to prioritise some tasks over others. From the evidence we found that SSAT continues to be overstretched and that sponsorship of the SSRO is an area that has suffered from being a lower priority. Comments from stakeholders included: *“The SSAT are responsible but are struggling”* and *“The MOD is not holding the SSRO to account for delivery”*.

12. We found that the sponsorship function at the SSAT is managed at a relatively junior level. With regards to the narrow financial information requirements set out in the Framework Document we understand that this is covered in the Financial Framework and reported to MOD Finance via SSAT. We found no evidence of non-financial delivery performance reporting to the MOD, other than in the Annual Report and Accounts.

13. We also found that whilst there are working level meetings on an ad-hoc basis between the SSAT and SSRO as needed, there are no regular quarterly or monthly performance monitoring meetings to monitor the SSRO’s performance, which is recommended best practice, and is done for the clear majority of ALBs (e.g. Homes England, Highways England, the Nuclear Decommissioning Authority, and now being increasingly applied to TLBs in the MOD).

Recommendation 12: In line with best practice, the sponsor team has at least quarterly performance meetings with the SSRO and that these are chaired at a sufficiently senior level to demonstrate the importance the Department attaches to holding the SSRO to account (typically quarterly meetings are chaired at Director or Director General level).

Recommendation 13: The sponsorship function is appropriately resourced to carry out its functions effectively.

14. We found that there is frequent contact between the Chair and the Minister (about every six weeks) and that the Chair meets occasionally with DG Finance and the Chief Commercial Officer. The CEO has had meetings with the Chief Commercial Officer and with the Head of SSAT. We have seen no evidence that there have been meetings between the Principal Accounting Officer (MOD Permanent Secretary) and the Accounting Officer (SSRO’s CEO) as required in the Framework.

15. We also found that whilst the Single Source Contract Regulation Steering Group was supposed to meet at least every 2 months, or more frequently if required, in practice it meets infrequently (it has only met once in 2019). We were unable to observe a meeting during the period of our review because of cancellations. We understand that the cancellations were due to unavailability of key members who were considered mandatory attendees for it to be considered quorate.

Recommendation 14: The terms of reference and membership of SSCRS is reviewed to ensure that it can function effectively, including by meeting regularly.

16. In practice, even if it were to meet regularly, we note that its terms of reference and membership are not best constructed for it to undertake a sponsorship role or hold the SSRO to account for delivery.

17. Several stakeholders confirmed that sponsorship was at best *“light touch”*, with one stating that *“there is very little meaningful contact between the SSRO and the MOD”*. Overall, we found a lack of clarity around the MOD’s relationship with the SSRO. Specifically, we found there to be no clear sponsorship function. MOD priorities are not, therefore, fully communicated to the SSRO. Most importantly, the MOD is not monitoring the SSRO’s performance against agreed plans or holding it to account in line with the intentions of the Framework document or best practice.

18. There was a broad consensus amongst stakeholders that the operational independence of the SSRO in carrying out its functions was essential to the credibility and operation of the single source regulatory regime; and industry are assured that this was happening in practice, e.g. in data collection, guidance and opinions: *“SSRO is an MOD sponsored ALB and as such it is accountable to MOD for overall delivery and use of public funds, but its operational independence must not be undermined”*

19. Our interviews did, however, reveal concerns amongst some stakeholders that the SSRO had sometimes over-emphasised its independence. We heard that there had been issues in the early days caused by the SSRO seeking to establish itself and aggressively asserting its independence to do so. Whilst those issues have now largely been resolved under the leadership of the current Chair, we found evidence of the SSRO continuing to over-emphasise its independence. More than one stakeholder commented that *“The SSRO Board remains fiercely independent of MOD”*. Another said that *“SSRO need to be careful not to overplay its independence; operational independence in setting BPR, data collection and referrals does not and should not preclude good, open relations with MOD (and industry) and opportunities to work collaboratively”*

20. We observed that this can act as an obstacle to the effective delivery of the single source regime. It appears to, restrict the opportunities for collaborative engagement between the SSRO with industry and especially the MOD, and it potentially undermines the ability of the MOD to hold the SSRO to account for delivery. We found that over-emphasis of independence over collaboration was limiting the operational effectiveness of the regime and the SSRO. Examples include a lack of working level cooperation on the review of legislation, and the exclusion of the SSRO from MOD industry fora. Another example is the effective exclusion in the vacancy notice for a defence adviser of applicants employed by DE&S or a defence industry supplier within the previous two years (other regulatory bodies do not exclude applicants in this way).

21. It is a requirement across Government for sponsor departments to have strong oversight of their independent arms-length bodies and to co-operate as appropriate in delivering shared objectives. There is significant central government guidance and

controls mandating and guiding the activities of ALBs, as well as how their home departments must manage them (e.g. Managing Public Money, Cabinet Office Code of Good Practice 2017). As MPM states, *‘the autonomy of each organisation needs to be buttressed by sufficient accountability to give parliament and the public confidence that public resources are used wisely.’*

22. The government’s interests in an arms-length body as sponsor (or ‘shareholder’) can be described as the department’s and minister’s interests in how the ALB is managed and performs as an organisation - and government is responsible for ensuring it executes its role as owner as effectively as possible. Best practice is for this to be delivered by a dedicated sponsor team, responsible for governance and oversight, separate to any departmental policy or client/customer interests.

23. Broadly a sponsor team is responsible for:

- Establishing and maintaining a strong relationship with the Board;
- Promoting effective relationships between the department and the ALB;
- Working with the ALB to establish and maintain appropriate corporate governance documents and systems, i.e. up to date and fit for purpose governance documents;
- Promoting effective leadership (high quality boards and senior management, including by Board appointments as required);
- Advising the sponsor Department on the effectiveness of the Board;
- Promoting effective objectives and business planning;
- Assessing and challenging the Board’s business plan from an owner’s perspective;
- Monitoring delivery against the business plan;
- Challenging and supporting the organisational performance of the body; and
- Providing the Board with wider political and policy context.

The model works for a wide range of bodies, including Government-owned companies (e.g. Highways England) and large NDPBs (e.g. The Nuclear Decommissioning Authority). This is achieved without in any way undermining the operational independence of the sponsored body.

Recommendation 15: The MOD establish a dedicated sponsor team, separate to the policy team, to be solely responsible for sponsorship of the SSRO and for holding it to account for delivery against its Corporate Plan.

24. Under this model the policy function should continue to report on the effectiveness of the overall single source regime within the context of MOD’s broader commercial strategy. An early priority for the sponsor team will be to improve the reporting lines and communication between the SSRO and the MOD as part of the sponsorship function.

25. The review team also considered whether it would be beneficial for the MOD to have a sponsor representative on the SSRO Board. The Corporate Governance Code for central government departments (published by HMT and Cabinet Office April 2017) and accompanying guidance provides that careful consideration should be given to whether or not there is a departmental representative on the board of an arms-length body, and that it is good practice, as a minimum, for a departmental observer to attend board meetings of significant body. The purpose is to inform discussion and strengthen relations with the sponsor department, not to enforce a departmental perspective. The sponsor member supplements the activities of the sponsor team, provided it does not create a conflict with the SSRO's independence mandate, acting as the sponsor/shareholder representative on the Board.

26. The duties of a sponsor member are and must be the same as those of all the other members. Broadly, those are to act in a way s/he considers, in good faith, most likely to promote the success of the organisation in fulfilling its statutory functions. In addition, by virtue of their HMG-facing roles (e.g. typically related to being Director level lead for sponsorship of the body) sponsor members have a special ability to facilitate relationships and understanding between the Department and the Board.

27. Stakeholders expressed a range of views on this, with some concerned that it might undermine or be seen to undermine the independence of the SSRO, which it is widely believed to be fundamental to the success of the Regulations. However, several stakeholders expressed the view that *“operational independence ought not to preclude a sensible working relationship which recognises that they are a MOD body.”* The review team agree that it is important to retain the operational independence of the SSRO, and with the comment of one stakeholder that *“persons and organisations that are subject to oversight/regulation by the SSRO cannot be part of the sponsor relationship”*, which would rule out such persons from being the MOD representative on the Board.

28. The practice of having a sponsor member on the Board of arms-length bodies has been widely adopted by departments for assets where UKGI has a shareholder/sponsorship role. Because of its statutory objectives (to ensure good value for money from MoD expenditure on qualifying defence contracts and to ensure that parties to those contracts are paid a fair and reasonable price) we recognise that the SSRO is different to that of bodies delivering a function or service on behalf of a Department - typically the kind of body where UKGI is on the Board. Whilst we found no reason why in principle this model should not be adapted to work for the SSRO, further work will, therefore, be necessary (including by MOD Legal) to ensure that having a sponsor member does not create a conflict, real or perceived, with the SSRO's operational independence.

Recommendation 16: Subject to further consideration to ensure that it does not create a conflict with the SSRO's ability to fulfil its statutory functions, that the Secretary of State appoints a sponsor representative from a non-procurement function of the MOD (or from another government department with a role in defence) as either a full member or as an observer on the Board.

The wider relationship between the SSRO and the MOD

29. The arrangements for non-competitive procurement involve several different participants from the MOD, responsible for defining the requirement, selecting the best procurement route and negotiating a deal with suppliers. This includes:

- Front Line Commands responsible for defining the requirement;
- The Delivery agent (for contracts above £20 million), usually DE&S, responsible for the commercial strategy, negotiating a deal with the supplier and managing the final contract; and
- Head Office, where the Single Source Advisory Team (SSAT) is responsible for setting the strategic policy, scrutinising single-source business cases and providing expert advice to commercial teams.

30. The SSAT is responsible for managing the relationship with the SSRO on behalf of the MOD. As noted in the NAO report, in its very early days the SSRO had directly raised queries with a small number of MOD project teams. To assure a consistent and coherent response to SSRO queries, the Department decided that all communications between itself and the SSRO should be coordinated through the SSAT. This has meant that the SSRO has relatively little contact with the department beyond SSAT.

31. We heard that relations between the SSAT and the SSRO were now working reasonably well, having been *“tense in the early years”*. We also heard positive views of the relationship between the MOD and SSRO more widely from stakeholders that had been involved in referrals or opinions. However, the evidence suggests that understanding of the new regime and of the role of SSRO has not been embedded throughout the Delivery bodies. The lack of contact between the SSRO and those responsible for negotiating and managing defence contracts *“had resulted in gaps in the awareness of the Regulations and role of the SSRO”*.

32. We noted the SSRO’s ambition to broaden and deepen its engagement with the MOD and that various MOD stakeholders are supportive of that: *“SSRO need a more direct and constructive relationship, not only with DE&S, but also ISS and the SDA”*.

Recommendation 17: The SSRO and MOD work together to review working relations and information flows to ensure their working relationship is as effective as possible.

Recommendation 18: The MOD provides direct contact between the SSRO and these delivery bodies and works with the SSRO to ensure that the regulations and role of SSRO are fully understood across the MOD.

SSRO Framework Document

33. A refresh of the 2014 Framework Document is now overdue. Understandably it has been put on hold pending the conclusion of this review.

Recommendation 19: The new sponsor team should agree a new Framework Document with the SSRO as a matter of priority.

34. The Framework, which should follow the latest template in Managing Public Money, should set out clearly the roles and responsibilities of all the parties, the SSRO's relationship variously with the MOD sponsor, policy and delivery teams, the Department's information requirements of the SSRO and the schedule of meetings. The 2014 Framework remains in place until a new one is agreed.

Annex A

Terms of Reference (FINAL 11th April 2019)

Background - The Single Source Regulations Office (SSRO)

1. The SSRO is an executive Non-Departmental Public Body (NDPB), constituted under the Defence Reform Act 2014. SSRO is sponsored by the MOD who oversee it for governance purposes.

2. As set out in its 2014 Framework Document, the SSRO is the independent expert on Ministry of Defence (MOD) single source procurement and the custodian of the single source procurement framework. As an independent expert it fulfils the adjudication role in single source procurement between the MOD and industry, where disagreements with industry occur that might otherwise prove intractable. Its principal statutory duty is to maintain a single source procurement framework that assures value for money for the UK taxpayer and allows a fair and reasonable price for single source suppliers. Its functions are to:

- keep the Single Source Contract Regulations (SSCRs) and Part 2 of the DRA under review;
- review the standard rates used to determine the profit rate used in pricing single source contracts, publish the review and make an annual recommendation for new rates to the Secretary of State for Defence on whether the rate should be adjusted;
- under section 19(2) of the DRA, calculate a recommendation to the Secretary of State for Defence on an adjustment to the baseline profit rate which represents industry's 50% contribution to the SSRO's funding from 2017;
- publish statutory guidance on allowable costs;
- publish statutory guidance on the Defined Pricing Structure;
- Publish reporting templates that provide statutory guidance, and are set out in the SSCRs;
- give opinions and make determinations;
- act as the appeal body for civil penalties and other determinations;
- publish statutory guidance on the determination of penalty amounts to be used by the MOD in issuing Penalty Notices; and
- provide analysis on behalf of the Secretary of State for Defence, including comparative benchmarks.

Objectives of the Tailored Review¹

3. Good corporate governance requires that public bodies are efficient, effective and accountable, and provide value for money. The Government's approach to public bodies' reform for 2015 to 2020 requires that public bodies should be subject to on-going and robust 'tailored reviews' led by the relevant sponsoring Department, with oversight and challenge provided by the Cabinet Office. Government policy is that each public body should be subject to a Tailored Review at least once in the lifetime of a Parliament. The SSRO was established in mid-2014 and this will be its first Tailored Review.

4. The aim of all such reviews is to provide a robust challenge to, and assurance on, the continuing need for the organisation in question, both in function and form, and where it is agreed that the organisation should be retained to consider its effectiveness and efficiency.

5. The Review will assess:

- The SSRO's performance or assurance that processes are in place for making such assessments and the capacity for delivering more effectively and efficiently; and
- The control and governance arrangements in place to ensure that the SSRO and MOD are aligned with best practice as set out by the Cabinet Office and UK Government Investments, and that they are optimal for the organisation's effectiveness.

6. A particular objective of this review is to identify the optimum relationship for the MOD to have with the SSRO, the best governance structure to underpin this, and what sort of enduring function is needed in Government to support such a system².

Links with MOD's Enabling Organisations Review

7. As part of the Modernising Defence Programme (MDP), governance reviews are being undertaken of each of the MOD's Enabling Organisations (i.e. those parts of the Department which provide the support services that Defence needs to operate effectively, and to generate military capability). Whilst as the independent expert body providing the adjudication role in single source procurement between the MOD and industry the SSRO is not an 'Enabling Organisation' in the same way as the other bodies, it is included in the review process and it was scheduled that the review take place during 2019. The contents of these reviews broadly align with the issues covered by the Tailored Review. As a Tailored Review has a slightly wider remit than the MDP reviews, the MDP approach will be expanded to meet the requirements of the Tailored Review model.

¹ Reference – Cabinet Office, Tailored Reviews: Guidance on Reviews of Public Bodies

² Reference – from the MDP generic ToR

Scope of the Review

8. The review will be conducted in line with Cabinet Office principles for Tailored Reviews, including being proportionate, timely, challenging, inclusive, transparent and providing value for money.

9. In line with Cabinet Office Guidelines the Tailored Review of the SSRO will cover the following:

- **Role and existence of the SSRO** – The review will consider whether the function of the SSRO is still required and aligned to MOD and wider government objectives. If it concludes that it is, the review will also consider the existing model of delivery is still appropriate and test that against alternative models.
- **Efficiency and effectiveness** – The review will consider how well the SSRO is performing against the role set out for it in legislation and how well it is meeting its objectives. It will also examine the current operational structure, corporate functions and related costs of the SSRO to determine whether these functions are being carried out effectively by the SSRO, identify where efficiencies can be made, and make relevant recommendations. This will include consideration of SSRO's commercial and digital capabilities.
- **Good corporate governance** – The review will investigate the effectiveness of SSRO's management and governance structures (including the Board). This will include a review of the lines of accountability, performance of the governance structures and key roles within them. The review will also consider the effectiveness of the external governance and oversight of the SSRO by HMG, including how and where the sponsorship function is carried out. The review will compare the arrangements in place with recognised principles of good corporate governance and best practice.

10. With due regard to the statutory independence of the SSRO, and to ensure consistency with the MDP reviews of MOD's enabling bodies, the review team will seek to answer the following questions concerning governance:

- **How does the current governance model operate?**
 - What does the SSRO deliver and for whom?
 - What are the current financial flows, incentive structures and accountabilities between the SSRO and its customers, custodians, and other stakeholders?
 - What is the SSRO's relationship with the MOD and how does the corporate performance framework operate?
- **How effective is the current governance model?**
 - How effective is the SSRO in meeting its objectives?
 - To what extent does the SSRO meet best practice governance (as set out in the MDP review process) in theory and in practice?
 - Is the role of MOD and its component parts clearly understood and operating effectively with respect to support and enforcement?

- Is the role of the various stakeholders clearly understood and operating effectively?
- What is stakeholder feedback, and any data, on the organisation's performance?
- **Are there alternative relationships with the Government that might be better and/or alternative governance models?**
 - Are there comparator organisations in the public or private sector?
 - If so, how are they structured, and can we determine how effective this is?
 - What other relationships could be considered and what would be the merits?
- **What should the sponsorship arrangements be for the SSRO?**
 - What are the sponsorship arrangements for other comparable bodies?
 - What arrangements might work best for enabling the SSRO to deliver its functions?
- **How could the current structure and governance model be improved?**
 - Recommendations for change and proposed next steps

11. To ensure a holistic approach, the review team will also consider the other Tailored Review areas as follows:

- **The UK leaving the EU** – The review will consider whether the UK leaving the EU could have an impact on how the SSRO carries out its functions.
- **Devolution** – Defence procurement is a reserved matter and the SSRO does not have responsibilities to the Devolved Administrations. However, given that the Guidance requires reviews to have considered fully the extent to which a public body's functions are directly or indirectly delivered in a devolved context, the review will consider whether there are any such dependencies
- **Transparency and diversity** – The review will explore whether further measures can be taken to increase the transparency of the SSRO's work, and evaluate the diversity of the body, including action to be taken in response to Gender Pay Gap Reporting.

Out of Scope of this Review

12. The following elements will be considered as being out of scope of this review:

- **Location** – the SSRO is based at Finlaison House, Holborn, London. A Tailored Review would normally consider the case for the SSRO to remain in London and to draw conclusions about the risks and benefits (both economic and operational) for alternative locations. However, this issue is already being considered as part of the Cabinet Office's Places for Growth (PfG) initiative and so it will not be considered as part of this review.

- The Review team will not undertake an audit of the SSRO's finances, nor will it review the Legislation, which is subject to a separate review by the MOD that is scheduled to be completed in December 2020.

Review Team

13. The Review will be carried out by UKGI(Defence) on behalf of the MOD. The independent review team will be responsible for all aspects of the review including launching the review, consulting stakeholders, gathering evidence, analysing results, writing the report and disseminating its results.

14. The work of the UKGI review team will be subject to independent challenge from colleagues in UKGI.³

Methodology

15. The methodology will include:

- Desk-based assessment of existing governance documentation and performance framework, including enabling legislation, Framework document, business plans and annual report and accounts;
- Site visit to the SSRO to speak to staff members to gain a flavour of how the organisation operates;
- Observation of an SSRO Board meeting and other formal meetings between Sponsor and SSRO; Sponsor, SSRO & Industry; and SSRO and industry as appropriate; and
- Interviews and workshops with stakeholders to include but not limited to the SSRO, MOD sponsor team, MOD delivery organisations and key industry suppliers. Interviews to include:
 - Chair;
 - Chief Executive;
 - Selection of existing NEBMs and referral panel members;
 - Selection of SSRO Senior Leadership Team;
 - Selection of MOD interlocutors from delivery organisations (including Front Line Commands);
 - SSAT, the MOD sponsors for SSRO;
 - Industry trade bodies (ADS and Tech UK);
 - Selection of single source contractors

³ As a Tier 3 review it is not necessary to have an external Challenge Panel. UKGI will provide independent peer challenge to the review team through established processes.

16. The review will conclude by producing a report that will describe the areas probed by the review, the evidence referred to during the review, and any recommendations or outcomes⁴.

Clearances

17. The terms of reference will be endorsed by MOD Ministers and subsequently approved by the Minister for the Cabinet Office (MCO). For the final report, in the first instance recommendations will go to the MOD Chief Operating Officer and ExCo for agreement. MOD Ministers will approve the final report. As a Tier 3 review the Cabinet Office Public Bodies Reform Team will review the emerging findings and sign off the final report before publication.

Timeline

18. The Tailored Review will begin when the review team is in place and the terms of reference have been approved.

19. It is expected that the review will begin in April 2019. Tailored Reviews are expected to take no more than six months. Based on an April start the indicative work timeline is as follows:

April	May	June	July	August	September
Desk research and site visit	Interviews	Interviews	Analysis	Refine, report writing	Clearances and publication

⁴ In line with CO Guidance, the intention is to publish the final report on GOV.UK

Annex B

Sources of evidence

- Report by Lord Currie of Marylebone on review of single source pricing regulations, October 2011
- Defence Reform Act 2014
- Defence Reform Act 2014 – Explanatory Notes
- The Single Source Contract Regulations 2014
- SSRO Framework Document 2014
- SSRO Financial Framework Document 2014
- Report by the National Audit Office - Improving value for money in non-competitive procurement of defence equipment - HC42, 25 October 2017
- Public Accounts Committee report – Ministry of Defence Acquisition and support of defence equipment – 28th report of 2017-19 session, 14 March 2018
- SSRO Board papers
- SSRO's Annual Report and Accounts 2017-18
- SSRO's Annual Report and Accounts 2018-19
- SSRO's Corporate Plan 2018-21
- SSRO's Corporate Plan 2019-22
- SSRO's Corporate Governance Framework 2017
- SSRO review of the Single Source Regulatory Framework: Recommendations to the Secretary of State June 2017
- SSRO's guidance on referrals procedures, determinations and opinions under the DRA 2014, updated April 2019
- SSRO stakeholder survey and stakeholder engagement strategy 2018
- SSRO's Annual Compliance Report 2019
- SSRO's annual qualifying defence contract statistics 2018/19
- SSRO's quarterly qualifying defence contract statistics Q1 2019/20
- SSRO's allowable costs guidance, March 2019
- SSRO determination on the extent to which labour costs in a qualifying defence contract are allowable, January 2019
- SSRO consultation documents
- SSRO monitoring and evaluation data
- SSRO internal management policies and processes, operating manuals and guides
- SSRO Website
- Workshop at the SSRO's offices for the Review Team

- Review Team’s Stakeholder Interviews—MOD staff
- Review Team’s Stakeholder Interviews—SSRO staff
- Review Team’s Stakeholder Interviews—Defence industry stakeholders
- Review Team observation of meetings of the SSRO’s Board, Regulatory Committee and Executive Committee
- Review Team observation of meeting of the MOD’s Single Source Contract Regulations (SSCR) Operations Group
- Information gathering meetings with the MOD’s Single Source Advisory Team (SSAT)

List of Interviews

Name	Organisation	Role
Alison Hexter	Thales UK	Finance Director
Andrew Forzani	MOD	Chief Commercial Officer
Anne Huckle	MOD - Defence Equipment & Support	Head of Commercial, Combat Air
Bruce Marshall	MOD - Defence Equipment & Support	Head of Commercial Strategic Coherence
Cat Little	MOD	Director General Finance
Charly Wason	MOD - Single Source Advisory Team	Head, Single Source Advisory Team
Christine Fraser	SSRO	Independent Referrals Board Member
Colin Hill	SSRO	Defence Advisor
David Galpin	SSRO	Director, Legal and Policy
David Rowell	MOD Head Office	Director of Commercial Strategy
Dr Tim Sheldon	MOD - Defence Equipment & Support	Head Astute Programme
Elizabeth Perelman	HM Treasury	Deputy Director, Defence, Diplomacy and Intelligence
George Jenkins	SSRO	Chair
Jo Coulter	MOD	Led on the ADOUR referral (MOD Practitioner)
John Horner	Rolls Royce	Controller Government Finance
Mark Bayley	Ex-MOD	Formerly Interim CFO Submarine Delivery Body
Marta Phillips	SSRO	NED
Mary Gee	MOD - Single Source Advisory Team	Finance and Governance lead
Neil Swift	SSRO	CEO

Peter Freeman	SSRO	Member of the Regulatory Committee
Phil Tozer	MOD - Defence Equipment & Support	Director of Commercial
Susanna Mason	MOD (formerly)	Director of Commercial Strategy (formerly)
Terence Jagger	SSRO	NED
Tim Martin	ADS Group	Head of Defence Commercial
Tim Walton	SSRO	Independent Referrals Member

Annex C

UKGI Corporate Governance Checklist

SSRO - Governance Checklist	Assessment	Comments	Initial RAG rating
Organisational Structure			
Is the organisation's governance structure set out? Are the core role, governance framework and strategic objectives set out in a Framework Document?	✓	The latest Framework Agreement (January 2014) in conjunction with the Financial Framework between the SSRO and the MoD sets out the SSRO's governance structure, as per the MPM required template. There has not been an update since.	
Is there a Chair's letter setting out the Chair's Objectives? Date of latest letter?	?	There is a Chair's appointment letter, dated 21 December 2016, which includes a summary of duties but does not include specific detail of the Chair's objectives.	
Are the roles, responsibilities and expectations of the Board and associated committees set out in terms of reference?	✓	The Framework Document (FD) includes sections on the roles and responsibilities of the Chief Executive, the SSRO Board and the Chairman. There is also a corporate governance framework that was drafted by the SSRO, and sets out the roles and responsibilities of the various committees, including, the Audit and Regulatory Committee.	
Are there regular meetings between the MoD Sponsor and the Chair/CEO and other policy lead(s), if applicable?	✓	We found that there is frequent contact between the Chair and the Minister (about every six weeks). The Chair meets the with MOD's DG Finance and CCO. The SSRO CEO has also met with MOD's CCO, as well of the Head of SSAT.	
Is an Accounting Officer letter in place?	✓	Yes	

SSRO - Governance Checklist	Assessment	Comments	Initial RAG rating
Leadership & Governance			
Does the Chair play a role in setting the CEO's objectives and KPIs?	✓	The Chairman and Chief Executive agree annual objectives for the Chief Executive. The Chief Executive's objectives are also reflected in the objectives that are cascaded throughout the organisation. These are linked with a clear 'line of sight' to the SSRO's Corporate Objectives and Key Performance Indicators.	
Are there a diverse range of independent NEDs with appropriate expertise?	✓	In addition to the Chair, there are 5 NEDs on the board, including 2 females. All NEDs have held senior and strategic roles in government and/or in the private sector	
Have any NEDs served more than 6 years?	✓	No - so a positive assessment has been given.	
Does the Board have an audit & risk committee?	✓	Yes	
Does the Board have a remuneration committee?	?	No, the Board does not have a remuneration Committee. However for the Chief Executive, remuneration is set by the SSRO Board. For the Executive Directors, remuneration is set by the Chief Executive, in line with the SSRO's terms and conditions of employment.	
Are all committees chaired by independent Board members?	✓	As per the most recent Annual report 2018/19, all committees are chaired by an independent board member. Audit Committee chair (Marta Phillips), Lead member for referrals (Terence Jagger), Regulatory Review chair (George Jenkins), Regulatory Committee Chair (Peter Freeman).	
Does the skill-set of the committee reflect its activities?	✓	Yes they do. As an example, the Audit Committee is composed of Marta Phillips (Chair), David Johnston and Mary Davies. Between them they have extensive knowledge of the Defence industry, Economic and Regulatory advisory as well as Accountancy	
Does the CEO meet with the Perm Sec annually?	✗	Meetings took place between the Chairman, Chief Executive and Permanent Secretary between 2014-2017 but there have been no meetings since then.	
Does the Chair have an annual meeting with the responsible Minister?	✓	As per the Framework document, the Chair is meant to have regular meetings with the responsible Minister and we can confirm that these meetings have been taking place.	
Is there a quarterly performance review of the ALB by the Department?	✗	No evidence seen	
Is the Chair's performance appraised annually by the Department?	✗	No evidence seen	

SSRO - Governance Checklist	Assessment	Comments	Initial RAG rating
Board Composition/Effectiveness			
Is there a Board succession plan?	?	No formal evidence seen but understand the Board are due to discuss in the coming months.	
Has a Board evaluation been undertaken?	✓	Yes. The Chairman concluded an Annual Board effectiveness review in January 2019. External/Independent review was concluded in 2018 with the new one scheduled from 2021	
Purpose, Strategy and Accountability			
Does the organisation have a clear vision/purpose?	✓	Yes - the Framework Document sets out the purpose of the SSRO, which stems from the Defence Act 2014.	
Is there a long-term strategic plan in place which reflects that vision/purpose?	✓	Yes - the Corporate Plan includes seven objectives that are explicitly linked to the delivery of one or more of the SSRO's statutory functions	
Is there an annual budget in place before the start of the next year? Is the budget and annual plan agreed with the Sponsor?	✓	According to the Financial Framework, by June each year, the SSRO are expected to provide the MOD with a projection of the expenditure to be met by GIA in the coming financial year, together with any receipts and an outline of the funding likely to be required over the subsequent two years. The SSRO's budget is agreed with the MOD each year, as set out in a budget approval letter from DG Finance.	
Does the organisation have clear objectives mapping to the multi-year strategy?	✓	Yes	
Remuneration and Accounting Officer Obligations			
Is the Perm Sec the PAO?	✓	Yes, Stephen Lovegrove is the PAO	
Is the CEO the AO?	✓	Yes. CEO was appointed AO by Stephen Lovegrove on the 14th August 2018	
Has the AO received training on the AO role?	✓	Yes. The details were listed on the AO letter and attendance confirmed by the SSRO	
Is a clear delegation framework in place for spending decisions?	✓	Yes. As per the Corporate Plan, the SSRO approves all spending before supply, with all expenditure over £10,000 requiring approval of the Chief Executive. The Board delegates to the Chief Executive the ability to approve contracts valued below the EU threshold applicable to supply, services and design contracts for sub-central contracting authorities (including the SSRO) and within the SSRO's approved budget. All details of spending over £25,000 is published on its website.	

SSRO - Governance Checklist	Assessment	Comments	Initial RAG rating
Risk Management			
Is there a member of the MoD Sponsor team with responsibility for risk reporting? Is there an equivalent in SSRO reporting on MoD Sponsor risk?		No evidence seen	
Is there an exec/team specifically accountable for risk management?		As detailed in the Annual Report, the Board is responsible for putting in place effective arrangements to provide assurance on risk management. The policy requires the executive committee maintain a Corporate Risk Register	
Does the org have effective risk management structures that feed to ARC/Board (incl. cyber security)?		Yes	
Is risk reported regularly at the board?		Yes. A review of the Corporate Risk Register is shared with the Board at each meeting, through the Corporate Performance Report.	
Does sponsor consider/report risks to MOD associated with SSRO?		No evidence seen	
Does board review cyber security on an appropriate basis?		Yes. As part of the corporate risk register and the ARC meetings, Security and management of information is discussed as a key risk	
Does org have an agreed set of values?		Yes, set out in the Corporate Plan: Independent We occupy an important space between government and industry, speaking and operating freely in the delivery of our statutory functions. Transparent The SSRO operates openly and transparently, and is proactive in engaging with our stakeholders and the public. We ensure the confidentiality of sensitive information we hold is protected. Authoritative We use data and analysis effectively and compellingly. We seek to be authoritative and professional in the delivery of our statutory functions.	
Organisational Performance			
Is there an annual budget in place before the start of the next year? Is this budget aligned to activity in place at the start of the year?		Yes - the 3 year Corporate Plan includes a financial plan over the same period. However not clear if this has been approved or signed off by the MOD. However the total budget is not large in proportion to the MOD's wider spend.	
Does the organisation have clear objectives?		Yes - as per the FD and Corporate Plan.	
Does the organisation have measurable KPIs for each objective?		The SSRO publishes its performance against its KPIs in its annual report. The KPIs relate to the evaluation of contracts and how to improve the regulation around single source contracts. They do not seem to have other financial or performance targets, but there do appear to be KPIs against each objective in the three-year Corporate Plan.	
Is performance against KPIs tracked over time and benchmarked where possible?		Yes - KPI performance is regularly reported to and reviewed by the Board.	
Culture and Ethics			
Does the organisation have an agreed set of values?		Yes, set out in the Corporate Plan. Independent We occupy an important space between government and industry, speaking and operating freely in the delivery of our statutory functions. Transparent The SSRO operates openly and transparently, and is proactive in engaging with our stakeholders and the public. We ensure the confidentiality of sensitive information we hold is protected. Authoritative We use data and analysis effectively and compellingly. We seek to be authoritative and professional in the delivery of our statutory functions.	

SSRO - Governance Checklist	Assessment	Comments	Initial RAG rating
Sponsorship			
Is there a "no surprises" culture between the organisation and sponsor	✘	There is some misalignment between governance expectations from the Sponsor and the Department. This includes, independence, and performance reporting from the SSRO to the sponsor. It's noted, that the department feels that the SSRO are scrutinising the MOD, while the intention of the legislation was for the SSRO to scrutinise the industry. Feedback noted that the insistence of "independence" from the SSRO has created a deficient feedback loop.	
Are there regular meetings between the Sponsor and Chair/CEO?	✔	We found that there is a good level of engagement at senior official level with the Chair and CEO. SSAT are sometimes invited to the Board and/or Committee meetings by the Chair.	
Is the Sponsor represented on all Board committees?	✘	The Sponsor does not sit on any of the boards at the SSRO. However, the department is invited to board meetings on invitation	
Is there a Department NED?	✘	All NED's are independent	
Do NEDs get Indemnity from MOD	?	No evidence seen. The MOD have a legal indemnity that covers staff conducting business on behalf of the MOD. It is likely that the NEDs should be covered under this policy.	
Is budget agreed with Sponsor Department?	✔	Yes. The SSRO are funded via a Grant in Aid. The annual budget is approved and signed off by the MOD	
Cyber Security			
Does the Board review its cyber risk program on an appropriate basis?	✔	Yes. As part of the corporate risk register and the ARC meetings, Security and management of information is discussed as a key risk	
Does the Board demonstrate due diligence, ownership, and effective management of cyber risk?	✔	The Corporate Risk Register identifies cyber risk and the steps taken to mitigate the risk.	