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Email:[REDACTED]

23 November 2021

Ben Johnson
Head, Financial and Business Advice
Single Source Regulations Office
Finlayson House,
15-17 Furnival Street
London
EC4A 1AB

By e-mail

Dear [REDACTED]

Developing an Information Technology Services Activity Group

I am writing in response to the Single Source Regulations Office (SSRO) consultation on the proposed development of an information technology services activity group which might be used to benchmark a profit rate for defence contracts that are for the provision of IT services.

As discussed, the MOD very much supports the SSRO's work in this area. We will not be submitting a detailed response on the questions asked in the consultation. However, we look forward to working with you and industry on further development of the proposed profit rate band, particularly as the current review of the Single Source Contract Regulations reaches a conclusion. I am happy to act as the MOD point of contact on this issue, liaising with Defence Digital colleagues as appropriate.

I am content for this letter to be published.

Yours sincerely

Steve Davies
Deputy Head, Single Source Advisory Team

Developing an information technology services activity group

Consultation response form

Overview

This response form should be read in conjunction with the consultation document.

This is a public consultation, which is open to anyone with an interest in the SSRO's two statutory aims of ensuring that good value for money is obtained in government expenditure on qualifying contracts, and that parties to those contracts are paid a fair and reasonable price. We also welcome comments from people or organisations with a particular interest in non-competitive defence procurement. The consultation will close on 05 November 2021.

Please respond by 5.00pm on Friday 05 November 2021.

Copies of this response form are available on the SSRO's website. The response form can be completed electronically or printed and completed by hand. Completed response forms should be sent.

- by email to: **consultations@ssro.gov.uk** (preferred)

- by post to: Baseline profit rate consultation responses, SSRO, Finlaison House, 15-17 Furnival Street, London, EC4A 1AB

- by telephone, including arranging an appointment to speak to the SSRO about the consultation: 020 3771 4767

If you require paper copies of any of the draft documents or the response form, please contact us (using the email or correspondence address above to provide us with your contact details). We will be happy to post copies to you.

Developing an information technology services activity group

Consultation response form

Your details

Name:

Neil Timms (SVP, CGI Space, Defence & Intelligence)

Organisation (if you are responding on behalf of an organisation):

techUK

Position (if you are responding on behalf of an organisation):

Vice-Chair of techUK Defence & Security Board

Consultation questions

Consultees do not need to answer all the questions if they are only interested in some aspects of the consultation.

When answering the consultation questions, it would be very helpful if you could support your responses with additional explanation and detail. This will help us to understand the basis for your answer and inform our finalisation of the guidance. As a minimum, please include the paragraph number(s) your comment refers to.

In the interests of transparency, it is our intention to publish responses to this consultation on the SSRO website upon completion of the consultation. Please indicate whether or not you consent to publication of your response by marking one of the boxes below.

Yes ☑   No ☐

Please note, if you do not consent to publication, we will treat your response as confidential to the extent of any disclosure that is required by law. In the event we are required by law to make a disclosure of your consultation response, to the extent we are legally permitted to do so, we will give you as much notice as possible prior to such a disclosure and will take into account all reasonable requests made by you in relation to the content of such a disclosure.

Developing an information technology services activity group

Consultation response form

Question 1: Has the SSRO identified a suitable set of activities that should be addressed by an IT services activity group (section 3 of the consultation document)? We welcome suggestions for modification to the scope with an explanation of any benefits.

Response:

We welcome the SSRO's consideration of developing an IT services activity group. The SSRO has made very good progress in identifying a suitable set of activities for an IT Services Activity Group but we would like to highlight some points where further development, clarification and granularity would be welcome.

First, we consider that there is no doubt that the IT services sector is distinct from the SSRO's existing activity groups. To emphasise the distance between IT Services and more traditional D&M, the latter as a segment must include the development and manufacture of military materiel ranging from say aircraft carriers to rifles: thus the involvement of ICT within D&M projects and products ranges from several million lines of code to zero. We do believe that the majority of IT that goes into D&M programmes is developed separately, most often under subcontract to specialist providers and therefore can be separated out for QDC/QSC treatment under the IT activity group.

We agree that the contractual vehicles may be structured similarly (though not necessarily identically) to those involved in producing equipment used for military or defence purposes. But the types of risks are further apart; and as an integrated system becomes larger, the consequent risks grow: Appendix 1 of the SSRO's consultation document does not comment on the risks involved in the 'Develop and Make' and 'Provide and Maintain' activity groups.

Section 3.5 proposes three categories as relevant to an IT Services Activity Group:
- development of bespoke IT software;
- integration of off-the-shelf components to deliver a bespoke IT service; and
- provision and maintenance of communication infrastructure.

We agree with the first two activities defined. But it is important to note that these two groups:

- should not be viewed as a binary choice between the two: many IT projects are a mixture of these two and other inter-related activities;
- do not cover all IT-related projects.

We believe the "off-the-shelf components" and "bespoke IT software" should be broadly defined to include the use of Open Source software. Whereas 'off-the-shelf components' should be able to be integrated into a wider solution in many cases with relative ease, Open Source software by its nature needs to be configured, often heavily, in each case; moreover, a solution may contain multiple open source components. This can be accommodated if the 'development of bespoke IT software' were extended to include the utilisation of Open Source software components.

We also believe that the second bullet should be extended to say "bespoke IT system/service" to reflect the systems integration aspect of many IT projects.

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Finally with respect to the third bullet and the proposed removal of it from scope as discussed at Section 3.7, we do not agree with the removal. If we delete "maintenance" as this would be covered under the argument made in Section 3.2 first bullet, and reworded to "the development and integration of bespoke communications systems.", this would recognise the fact that there is a continuum between IT and communications systems. Most obviously this would include networking as part of an IT system which you have recognised as part of your keyword search criteria in Table 4 but it would also recognise the increased prevalence of software driven and configurable communications systems such as Satellite communications control systems, software defined radio, etc. and the inter-related disciplines such as spectrum management and communications management systems inherently built into military C2 systems.

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Question 2; Does the characterisation the SSRO has drafted (Table 3, section 4 of the consultation document) accord with your expectation of the type of activities which contribute to the delivery of defence contracts for IT services? Do you have any suggestions for how it could be improved? Please add comments to support your answer:

Response:

Whilst we are largely aligned with the contents of Table 3, Section 4, we feel that this characterisation needs to reflect the key differences between serving Defence in Communications & Information Systems and Services, which is not equivalent or typical of the wider CIS market. For example, the Defence market is exclusively B2B: it never contains any B2C. Furthermore, the Defence market often contains dual-use components, such as propulsion, guidance, communications, displays, etc; but the Defence ICT market has many fewer examples of dual-use systems.

When an IT company creates a bespoke system for Defence, there will generally not be a repeat sale: indeed many Defence contracts specifically exclude this possibility (this discounts COTS tools, such as MS Office, which were developed for the civil market, and are applied in Defence). Thus in many areas of Defence such efficiencies for the supplier do not exist or are illusory.

While the UK Defence market includes all functions that are seen in the wider IT & comms marketplace, there are several aspects of Defence contracting that are either absent or do not feature as strongly in the broader IT marketplace, including:
- Safety critical;
- Mission critical;
- More rigorous testing, implicit in the previous two features;
- Employing rarer skills and knowledge, or limiting availability of resource due to…
- National security, and its many implications on IT activity in this market

We therefore conclude that the Defence ICT market demonstrates key differences both from the Defence 'Develop & Make' market and from the civil ICT market.

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Question 3: Do you support the text search terms and NACE codes proposed (Tables 4 and 5, section 5 of the consultation document)? Please provide any suggested improvements/amendments where appropriate? Please add comments to support your answer:

Response:

Table 4: Proposed text search terms
We support the inclusion of the search terms shown in Section 5 Table 4. But the balance of these search terms are weighted heavily towards IT systems, with less emphasis on communications which we previously proposed remains in scope. You may wish to consider adding:
- secur*
- communication*
- mobil*
- satellite
- technolog* (vice technology*) in order to catch technological, technologies, technologist, etc
- encrypt*.

Table 5: NACE codes
We can understand from the consultation document that you chose to exclude 6110 (Wired telecommunications activities), 6120 (Wireless telecommunications activities) and 6190 (Other telecommunications activities). But we think it is an oversight to exclude 6130 (Satellite telecommunications activities).

Despite the current NACE Codes document (Statistical Classification of Economic Activities in the European Community) running to 369 pages, it uses the word 'security' to mean various things but never to cover cyber security. This is a serious omission, and demonstrates that NACE does not capture everything that needs to be included here.

Likewise the NACE codes do not cover prime contracting, which should not be viewed as restricted to the delivery of physical platforms to the Armed Forces: for example the provision of DII is a large IT related prime contract; and although most users interact with DII through a laptop or desktop computer, the provision of a system like DII is so much more than just delivering and maintaining laptop or desktop computers.

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Consultation response form

Question 4: Do you consider the companies set in Appendix 2 of the consultation document to undertake the type of activities which contribute to the delivery of defence contracts for IT services? Do you have suggestions of additional companies we should consider? Please add comments to support your answer:

Response:

On review of the list in Appendix 2 we would flag the following observations:

- Kainos are a rapidly growing provider to Government, especially in the agile space. Whilst not big in Defence yet they do represent a good comparator for agile IT systems development to Government and therefore could be considered for inclusion.
- Softcat, which has been included in Table 2 in Section 4, undertakes a significant amount of reseller activity which was listed as a reason for rejection in Section 5.10
- Centerprise, which has been included in Table 2 in Section 4, would appear to fit most closely with NACE code 2620 which has been excluded
- Otherwise we would consider that you have already identified the key companies from this long list.

We have considered a number of alternative "lists" for consideration as below. Analysis of these present a few recurring names that we would suggest are considered.

- Accenture
- IBM
- Leidos
- L3Harris (assuming Defence specific comms included in scope)
- Roke (separately from their parent Chemring)
- AWS
- Microsoft
- Deloitte
- PA Consulting
- BAE AI (separately from the parent)
- BMC

The inclusion of a selection of these in addition to the seven we agree with in Table 2 in Section 4 should make the overall selection more representative of the sector.

'Lists' for consideration
We have provided below a number of lists of IT companies, collected from a small variety of sources, from which you may wish to select some companies to expand the companies listed in Appendix 2.

The *MOD trade, industry and contracts 2021* report
(https://www.gov.uk/government/statistics/mod-trade-industry-and-contracts-2021/mod-trade-industry-and-contracts-2021) contains the following figure, which shows the top MoD suppliers, including multiple IT suppliers of note.

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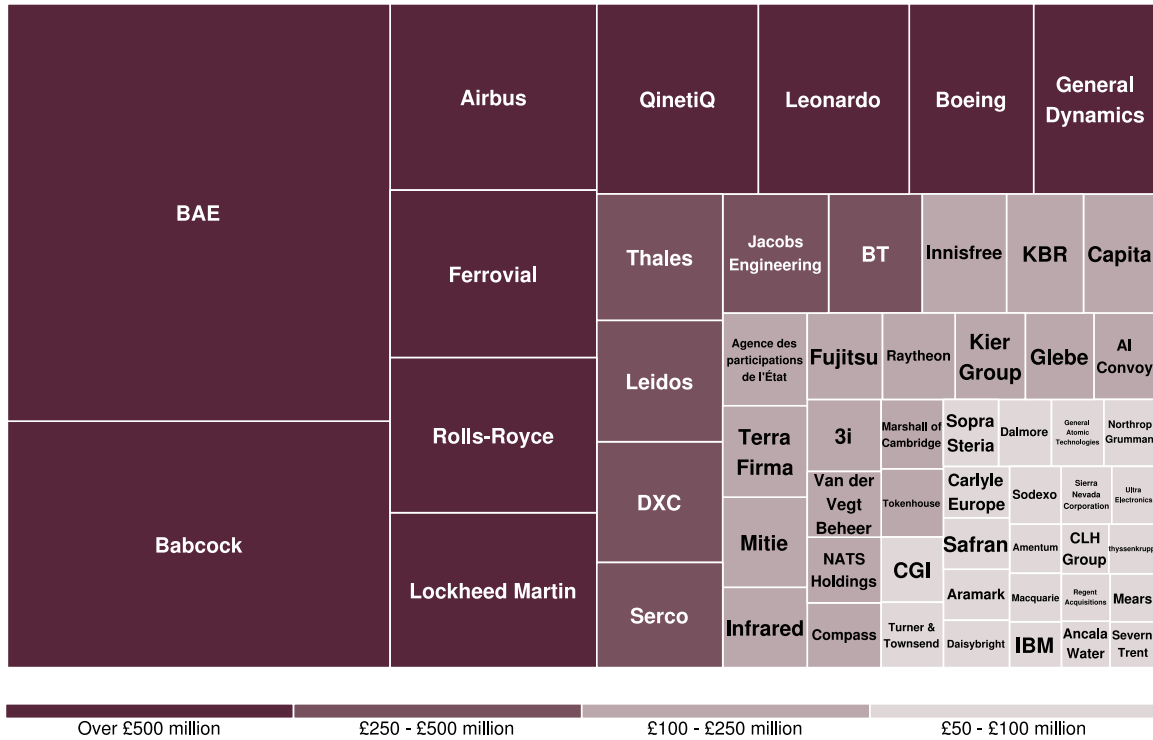
Highlights:
- Leidos
- DXC
- IBM

techUK D&S Board
The members of the techUK Defence & Security board come from 2iC, Actica, Airbus, Atkins, BAE Systems, L3 Harris, Becrypt, Boeing Defence, BT, Capgemini, CDS Defence & Security, CGI, Fujitsu, General Dynamics, Google UK, Jacobs, Leidos, Leonardo, Microsoft, Nexor, Northrop Grumman, Accenture, QinetiQ, Raytheon, RJD Technology, Roke, SecureCloud+, and Thales UK

Highlights:
- Leidos
- L3 Harris
- Nexor
- Roke
- SecureCloud+

Techmarketview Defence SITS Report (attached here)

The recent TechMarketView report listed the top 10 IT suppliers to Defence as DXC, BAE Systems, Fujitsu, Leidos, CGI, Capita, BT, Sopra Steria, Atos, and Boeing – which together accounted for £1,878m of revenue in the most recent FY.

Highlights:

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- AWS
- Microsoft
- Deloitte
- PA Consulting
- Leidos
- BAE AI

<u>Defence Digital Strategic Suppliers</u>
Lee Rimmer, ISS Commercial Director in Defence Digital
([REDACTED]), recently invited numerous companies to join his Defence Digital Strategic Supplier call. The names of the invited companies (which Defence Digital/Lee Rimmer can furnish) would provide further IT companies of importance to Defence Digital.

Highlights:
- Microsoft
- BMC
- IBM
- L3Harris

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<u>Cabinet Office Key Suppliers</u>

Highlights:
- Accenture
- Microsoft
- AWS
- IBM
- Leidos

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Consultation response form

Question 5: Do you have further comments on the development of the IT services activity group?

Response:

No further comments. Thank you for consideration of our points.

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Consultation response form

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Developing an information technology services activity group

Consultation response form

Your details

Name:

James Schofield

Organisation (if you are responding on behalf of an organisation):

Leonardo UK Ltd

Position (if you are responding on behalf of an organisation):

VP Finance

Consultation questions

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When answering the consultation questions, it would be very helpful if you could support your responses with additional explanation and detail. This will help us to understand the basis for your answer and inform our finalisation of the guidance. As a minimum, please include the paragraph number(s) your comment refers to.

In the interests of transparency, it is our intention to publish responses to this consultation on the SSRO website upon completion of the consultation. Please indicate whether or not you consent to publication of your response by marking one of the boxes below.

Yes [X]   No [   ]

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Question 1: Has the SSRO identified a suitable set of activities that should be addressed by an IT services activity group (section 3 of the consultation document)? We welcome suggestions for modification to the scope with an explanation of any benefits.

- We understand and agree that certain IT service activities are already present in defence contracts that fall under existing SSRO activity groups, such as D&M and P&M. We would welcome reconsideration of companies, included in the SSRO's existing activity comparator groups (D&M and P&M), as we believe some of the companies included do not perform the full range of complex activities (see next bullet).

- The assessment of comparator companies, within the IT services and other activity comparator groups, should ensure consistency with the MOD contract "output" based approach to the application of activity group BPRs (i.e. an "output" approach would classify a contract for a ship as D&M, it would not segment the contract by input activity). Comparator GUO's should be capable of delivering the "output", not just elements of that output.

- We are not aware of all the instances and complications experienced by MOD in pricing IT contracts (activities not already within existing activity categories), but we concur with 3.3 in hoping the introduction of new ways of determining a fair price for goods sold on the open market may offer a solution to this problem. If a new pricing formula is introduced we wonder whether it might be better to assess the requirement for, and the cost of, a new activity category post the introduction of new pricing methodology.

- If there is value in this new activity group, we agree with the two activities defined. If the third bullet is not to be included it will require confirmation that this activity is included in the work performed by "provide and maintain" comparator companies.

- As the SSRO's approach is to use GUO's in the construct of comparator groups we would welcome a review of the actual activity groups each GUO operate in. It is possible a number of GUO's operate in multiple activity groups. If so would comparability be enhanced if some activity groups were combined?

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Question 2; Does the characterisation the SSRO has drafted (Table 3, section 4 of the consultation document) accord with your expectation of the type of activities which contribute to the delivery of defence contracts for IT services? Do you have any suggestions for how it could be improved?

Please add comments to support your answer:

Answer…..

- At 4.5 of your consultation it is explained "where a group carries out IT service activities for the MOD alongside other work, the financial data of the group may not be useful for benchmarking purposes."
    - We would observe that the other activity comparator groups have Global Ultimate Owners (GUOs) in similar circumstances. Some of the activity group GUO's perform no work for the MOD or have significant parts of their group who do no work for the MOD. Two examples are:
        - Del Bo Impanti SRL, an Italian company included in the D&M activity group, provides elevators and moving stairways, serving customers in Italy (Bloomberg)
        - Willis Lease Finance Corp, a US company included in the P&M activity group, is a lessor and servicer of commercial aircraft and aircraft engines (Reuters).
    - Should the existing activity groups be reviewed considering the logic explained in 4.5?

Table 3
- Sections 1 and 2 discuss the type of activity and contractual relationship.

    - Should the selection criteria for IT, and indeed the other activity groups, require at least one of the following three text codes to be present: defence*, defense*, militar*?

    - Section 1 explains the activities the contractor would perform "are expected to engage in the development of bespoke and complex IT systems or support their ongoing operation and maintenance". We had understood at 3.5 and 3.6 the activity group was:

        - development of bespoke IT software;

        - integration of of-the-shelf components to deliver a bespoke IT service,

    - Please could the correct reading be confirmed? If it is as Table 3 section 1 then we would read the activity group is a combination of D&M and P&M for IT activity services. This may be logical as we presume the same GUO will provide both development and support.

- Sections 3 to 9:
    - Can the MOD confirm the nature of IT contracts they are intending to single source rather than compete?

- Section 6
    - Is this section consistent with MOD's recent explanation of their approach to the application of activity based BPR's?
    - The MOD explained: the choice of BPR will be based on the contract "output", not the contract's input costs (i.e. if the contract is for a new ship, it will use the D&M BPR).

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Question 3: Do you support the text search terms and NACE codes proposed (Tables 4 and 5, section 5 of the consultation document)? Please provide any suggested improvements/amendments where appropriate?

Please add comments to support your answer:

- Conceptually the use of NACE codes to help filter populations to manageable numbers is understood. However, experience with the existing comparator groups of D&M and P&M is 93% of companies identified by NACE code are then rejected when manually reviewed. We also wonder whether such an error level means companies that should be included in the comparator group are missed?

- Text search terms: Have the MOD confirmed the nature of IT service contracts they are intending to single source rather than compete? This would help defining the text search terms.

- SSRO refer to using CPV codes from the contracts with the MoD. Are these codes used in addition to NACE codes and have they been used in determining the existing activity groups, or is this an improvement to be applied to all activity groups?

- The consultation explains you have sought comparable parameters through consideration of existing MOD contracts. We think this approach would benefit all activity groups. The knowledge gained from the 381+ qualifying contracts could better inform the selection criteria/parameters (e.g. minimum GUO size, capital base and whether D&M and P&M contracts are performed from common GUO's, in which case should D&M and P&M be combined as one activity group?).

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Consultation response form

Question 4: Do you consider the companies set in Appendix 2 of the consultation document to undertake the type of activities which contribute to the delivery of defence contracts for IT services? Do you have suggestions of additional companies we should consider?

Please add comments to support your answer:

- Without further information we unable to answer whether the list of companies is correct.

Developing an information technology services activity group

Consultation response form

Question 5: Do you have further comments on the development of the IT services activity group?

- Concluding new pricing formula(s) and the MOD articulating the IT activities it intends to single source should provide a constructive starting point to considering the need for an IT services activity group, or not.