

## Opening letter from Chair, Jeremy Newman



### Dear Stakeholders

Happy New Year to you all. 2015 is shaping up to be a very exciting and challenging year for the SSRO.

Hopefully you will be aware that the SSRO's powers were fully commenced on 14 December, following approval of the Defence Reform Act's Regulations by Parliament. The Regulations detail the single source procurement framework requirements for the MOD, the SSRO and the qualifying defence contractors and sub-contractors.

The SSRO has been very busy as we continue on our journey to establish ourselves as an independent organisation. This newsletter is full of the work that we have been doing both internally and externally, including opening our offices in London for business, issuing our first set of guidance under the framework, and recommending the contract profit rate for 2015 to the Secretary of State.

I have continued meeting defence suppliers, including some very interesting site visits to key single source assets and services. I have more meetings and visits programmed in for the next several months.

I recently met the Secretary of State for Defence, Rt Hon Michael Fallon MP, and Min DEST, Phillip Dunne MP, in early January. Both were interested to hear how the SSRO was developing and how we were engaging with both the MOD and industry.

The Board has agreed our stakeholder management strategy and we are launching our first senior forum on 5 February. Over the coming months we will endeavour to reach out to the medium and smaller size contractors for a discussion on how the regulations impact their businesses.

I hope you find this edition of interest and I look forward to keeping the dialogue open.

Yours,  
  
Jeremy

# SSRO is open for business

On 8 December, we opened our newly refurbished office in London. We have taken over the lease on the 3rd floor of Finlaison House on Furnival Street, near Chancery Lane, from the Al-Sweady Inquiry. It has been refitted as a modern workspace for the Board and a staff complement of eventually 30. We are open for business.

**Finlaison House**  
**15–17 Furnival Street**  
**London**  
**EC4A 1AB**  
**020 3771 4767**



## What's on the Board's agenda

Since our October Board meeting, we have held one further full Board meeting in December. We have also held two extraordinary Board meetings in December and January.

The following link to our website provides both the agendas and minutes from recent Board meetings: [www.gov.uk/government/organisations/single-source-regulations-office/about/our-governance](http://www.gov.uk/government/organisations/single-source-regulations-office/about/our-governance)

At the full December Board meeting, we discussed the guidance on allowable costs, progress on the contract profit rate and several corporate policies and strategies.

One paper of interest was the Stakeholder Management Strategy. The SSRO has compiled and begun to segment a detailed list of key stakeholders, developed a website, house style and brand, and produced a newsletter. The paper recommended that the SSRO Board should hold a senior forum twice each year for MOD, all prime defence contractors and ADS (more on this later in the newsletter). The Board also agreed that quarterly discussions of mainly operational matters should take place between the SSRO Executive Committee and the prime defence contractors. Operational issues would benefit from more in depth detailed discussions at working level.

December and January saw the Board hold two extraordinary meetings:

1. To recommend the baseline profit rate to the Secretary of State for Defence; and
2. To consider the responses to the consultation on the allowable costs guidance.

## Baseline Profit Rate



View online: [www.gov.uk/government/publications/ssro-2015-contract-profit-rate](http://www.gov.uk/government/publications/ssro-2015-contract-profit-rate)

Under the Defence Reform Act 2014 (the Act), the SSRO is required annually to review the figures used to determine the Contract Profit Rate for pricing single source contracts. It is also required to publish the review and make an annual recommendation to the Secretary of State for Defence (SofS) on whether the profit rate should be adjusted. The SSRO must recommend the new rates to the SofS by 31 January 2015 in order for the SofS to issue the rates by 15 March 2015.

Under the current 'Yellow Book' regime, the rates are calculated by the Review Board for Government Contracts (the Review Board), an Advisory Non Departmental Public Body sponsored by the Ministry of Defence (MOD). The Review Board has been charged with developing the baseline profit rate and capital servicing allowances for the final time in 2015. The SSRO Board agreed to adopt the Review Board's recommended baseline profit rate and capital servicing allowances for 2015.

The 2015 baseline profit rate is 10.60 per cent based on a three year rolling average. This is 0.10 per cent reduction from 2014.

The 2015 baseline profit as a percentage of cost of production in 2013/14 is 9.88 per cent.

## Allowable Costs



View online: [www.gov.uk/government/consultations/single-source-cost-standards-sscs-statutory-guidance-on-allowable-costs](http://www.gov.uk/government/consultations/single-source-cost-standards-sscs-statutory-guidance-on-allowable-costs)

The Defence Reform Act 2014 provides a new legislative basis for the Single Source Procurement Framework. The Act makes the SSRO responsible for issuing statutory guidance on Allowable Costs. The guidance produced by the SSRO is for use by contractors and the Ministry of Defence (MOD) when determining whether costs are Allowable under qualifying defence contracts and qualifying sub-contracts. To support this, the Act states that Allowable Costs must be 'Appropriate, Attributable to the contract, and Reasonable in the circumstances' (Section 20(2)(a)-(c)).

### Introduction

Our approach in developing the guidance on Allowable Costs included:

- reviewing all relevant sections of the Act, Regulations and Single Source Procurement Framework and the background to these;
- reviewing the responses to the SSRO's consultation exercise on Allowable costs;
- reviewing guidance from the USA – The Federal Acquisition Regulations;
- reviewing guidance from Canada – The Standard Acquisition Clauses and Conditions;
- reviewing the MOD's interim guidance;
- reviewing the existing Government Accounting Conventions – the 'Yellow Book';
- drafting the document around a logical structure based on 'best practice' examples; and
- using plain English.

The guidance produced is principle, rather than rules, based and provides users with assistance in assessing whether a cost meets the three criteria of Appropriate, Attributable and Reasonable in order to be considered Allowable.

We are grateful to everybody who responded to our consultation. In total we received 19 responses.

All comments received were considered, and where appropriate have led to amendments to the document – especially where it was apparent that possible confusion could arise from the original wording. Overall, we are confident that the Statutory Guidance on Allowable Costs is a robust document, with clear guidance on the principle and the criteria of Appropriate, Attributable and Reasonable that should assist contractors and the MOD in assessing whether a cost is Allowable.

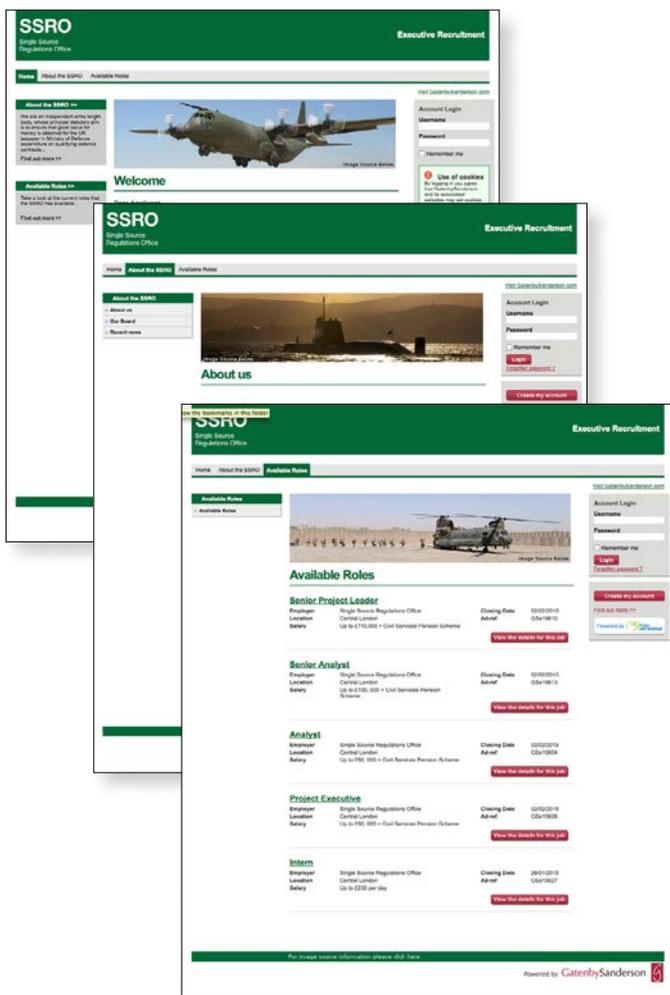
# Executive Committee and operational issues

We continue to evolve as an organisation.

We have appointed our Director of Corporate Resources and he will start with us in April.

We have launched a recruitment drive for several posts to get the organisation up and fully functioning by the Spring.

We have now completed outsourcing of our back office functions including HR, Payroll and Finance. We have selected Midland HR and Ofgem as our key suppliers.



frequency of submission of these reports which both the prime contractor, and sub-contractor who is assessed as having a Qualifying Sub-contract (QSC), must comply.

Information is required about the contract and about the contracting organisation(s). There is a legal obligation for Defence Contractors to submit this information to both the SSRO and the MOD. It is envisaged that this information will be submitted online, either by manually entering or uploading the data to a secure submission portal, or by direct interface between the Defence Contractor's IT systems and those provided as part of this Contract.

This service will be contracted and managed by the SSRO. However, some MOD personnel will need to be licensed and authorised to access the system. Analysis of the submitted information by the SSRO will be independent from any access to the system by MOD.

Key to the specification is the security and integrity of data when proposing any solutions.

We are seeking to let a Contract through which the Provider will:

- Develop a requirement specification sufficient to enable the Provider to build, host, manage and support a pilot system capable of delivering core requirements of the above functionality. The pilot system must facilitate information receipt and processing from a small pilot group of defence contractors and must be supported by the Provider until a permanent system is in place.
- Produce an updated requirement specification based on the results of a three month evaluation of the pilot system.
- Produce a final version of the requirement specification document that the SSRO will be able to use in an OJEU tender for a full solution late in 2015. The exact design of the processes and systems will be subject to discussion with the chosen supplier as part of the tender process for the provision of this service.

We are aiming to be in a position to award a contract by the end of February for a provider to complete the requirement and specification and Pilot Design by the end of April 2015. We have programmed the delivery of the Pilot System by 30 June 2015. Following a three month evaluation of the pilot system, we will commence an OJEU tender process by the end of October.

We will want to work closely with both the MOD and early QDC contractors during the pilot phase. We will set up a user group to facilitate this engagement.

## Industry Data

This month we issued an invitation to tender for the qualifying supplier and contract data processing services for single source contracts.

The Act requires that a prime contractor provides reports relating to Qualifying Defence Contracts (QDCs) to which they are party. The Single Source Contract Regulations 2014 specify the content and

## Our forward look

FEBRUARY				
Week of 16/2	SSRO Regulatory Review Committee			20 Commence consultation on contract profit rate adjustments
Week of 23/2			Commence consultation on report templates and user guidance	Commence consultation on penalties guidance
MARCH				
Week of 2/3				Consultation on contract profit rate adjustments ends
Week of 9/3				Consultation on penalties guidance ends
Week of 16/3	SSRO Regulatory Review Committee		Consultation on report templates, user guidance ends	
Week of 23/3				
Week of 30/3		All Statutory guidance and report templates published		

### Statutory Guidance

Over the next two months, our priorities turn to drafting, consulting and finalising the statutory guidance on the contract profit rates adjustments and civil penalties. We will issue draft guidance for consultation on 20 February regarding:

1. Cost risk adjustments  $\pm$  25%;
2. Profit on cost once adjustment;
3. Incentive adjustment up to 2%; and
4. Capital servicing adjustment  $\pm$ .

We aim to publish the final guidance by the end of March 2015.

We are also developing the guidance on penalties relating to accounting records and reports. We will publish our draft guidance for consultation later in February for final publication by the end of March.

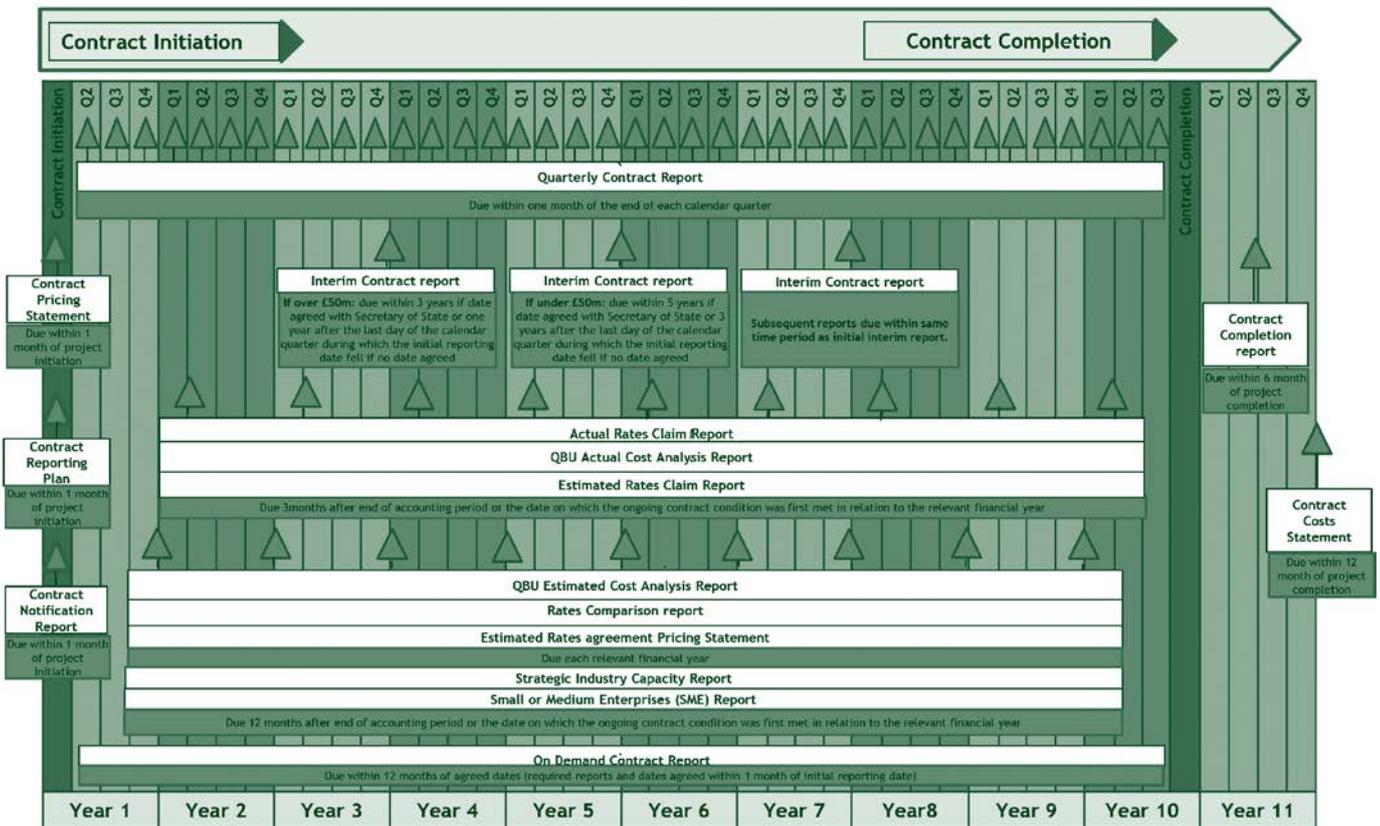
### Report Templates

The Defence Reform Act 2014 and Single Source Contract Regulations (SSCR) require qualifying defence contractors and sub-contractors to submit a series of reports throughout the lifetime of a contract. The regulations specify the report contents and timetable for submission. The SSRO must issue the report templates and supporting guidance on how to complete the reports.

The following chart outlines the various reports and when they are required to be completed. We are currently reviewing draft templates that were prepared by the MOD and developing both a user guidance for completing the reports and a data glossary to ensure definitions are as clear as possible. We will commence a consultation on the reports and user guidance in mid-February.

One report, the Contract Notification Report, requires completion of the defined pricing structure (DPS). This is a very big task and one where we need to work in partnership with both the MOD and industry. We will commence a discussion on the DPS at the senior forum, and consult on the level of detail of the data to be specified.

# Reporting requirements – Timeline



## Senior Forum with Primes and ADS

On 5 February, the SSRO is hosting its first senior forum with prime contractors and ADS at our offices in London. With the MOD's Single Source Pricing Regulations Senior Forum drawing to a close, there will no longer be a single forum that regularly brings together the SSRO, the prime defence contractors and the MOD to discuss matters of mutual interest.

The SSRO Board therefore proposes to host a forum twice each year, at which the Board will seek to meet all prime defence contractors' CEOs or Chairs, ADS and the MOD. Such meetings should provide an opportunity for constructive engagement at a senior level among the major parties in the regime.

