

The logo for the Single Source Regulations Office (SSRO) consists of the letters 'SSRO' in a bold, black, sans-serif font.

Single Source
Regulations Office

Defined pricing structure

Response to Consultation

27.03.15

Introduction

1. Background

The Defence Reform Act 2014 provides a legislative basis for the Single Source Procurement Framework. The Act makes the Single Source Regulations Office (SSRO) responsible for issuing the guidance on defined pricing structure. Section 24(2)d of the Defence Reform Act require a primary contractor to have regard to guidance issued by the SSRO in preparing reports.

Included in the contract notification report, interim contract report and the contract completion report is a requirement for costs to be split by the defined pricing structure. Regulation 22(7) states that where a regulation requires a breakdown of costs by the defined pricing structure, that breakdown must be presented as a list of cost categories describing key components of the deliverables to be provided under the contract.

2. Our Approach

In considering the approach to the defined pricing structure, the SSRO has:

- Consulted on the submarine DPS to obtain initial thoughts from industry on a Sea Systems defined pricing structure.
- Approved working with industry and the MOD to develop the defined pricing structure for early adopters over the next 12 months.
- Agreed the use of the US Military Standard 881c as a foundation enabling the appropriate amendments to make suitable for MOD contracts.
- To allow for immediate reporting requirements include the DPS at Level 1 only thus relating to the total programme cost. We propose to develop Level 2 over the next 6 months, working with early adopters and the MOD. In the medium term we will develop the DPS to create a complete suite of agreed defined pricing structures.

The Consultation

3. Consultation Process

On 26 February 2015, the SSRO issued its draft defined pricing structure data dictionary for a Sea System (SM Successor) and our approach to DPS, until it is fully developed.

In carrying out this consultation we sought to ensure that as many people and groups as possible had the opportunity to contribute their views. It was published on the SSRO's website (<https://www.gov.uk/government/consultations/defined-pricing-structure>), and emailed to our stakeholder contacts. To aid the consultation process, we provided a consultation response form for completion.

In total, we invited 88 stakeholders to respond to our consultation, including: government bodies, defence industry contractors, think tanks, trade associations and regulatory bodies.

The consultation closed on 19 March 2015. This document summarises the feedback we received and the action we have taken.

4. Breakdown of Responses

In total we received 14 responses from various stakeholders, the breakdown of which can be seen in Table 1.

Whereas the majority of respondents used the consultation form provided, some elected to provide more detailed additional feedback. We have considered all the feedback received.

Table 1

	Number of Stakeholders invited to comment	Total Number of Responses received	Percentage of responses received
Government	1	1	100
Industry	68	10	15
Regulators/ Other Government Bodies	6	0	0
Trade and Professional Associations and Think Tanks	7	1	14
Research/ Academics	3	0	0
Other	0	2	N/A
Media	3	0	0
Total	88	14	16

The responses gave the SSRO an understanding of organisations' views on the principles surrounding a future defined pricing structure and suggested some alternative approaches. It has not been possible to include and respond to every comment received in this document. However, we have tried to include as many as possible by grouping together the main themes and responding to these.

5. Key issues raised by the respondents

Issue	Description of Issue	Response
Purpose of the DPS	Respondents queried the purpose of the DPS.	The purpose of the DPS is to establish a high level relationship between inputs and outputs and to support benchmarks.
Who defines the DPS for a particular contract	Respondents believed the legislation provides no basis for the SSRO to define a DPS for a contract. The only role provided for the SSRO is to make a determination on a referral.	<p>Section 24(2)(d) of the Defence Reform Act requires a primary contractor to have regard to guidance issued by the SSRO in preparing reports.</p> <p>This requirement is also detailed in Regulation 22(9) which states “In preparing a report, a contractor must have regard to any relevant guidance issued by the SSRO.”</p> <p>Included in the contract notification report, interim contract report and the contract completion report is a requirement for costs to be split by the defined pricing structure. Regulation 22(7) states that where a regulation requires a breakdown of costs by defined pricing structure, that breakdown must be presented as a list of cost categories describing key components of the deliverables to be provided under the contract.</p>
Use of Military Standard 881c	There were mixed responses in relation to the use of US Military Standard 881c. These included that this was tried and tested methodology so was sensible to use as the basis for development, to the UK uses rules and not principles, and that the UK is a different environment to the US.	The SSRO propose to use US Military Standard 881c as the basis for the DPS, although it will not follow the detail of the US model. We will develop a set of principles for the completion of the DPS. US Military Standard 881c is not appropriate for service contracts. We will develop a service DPS and will again consult with industry on the production of this.

Issue	Description of Issue	Response
Remapping codes	Concern was raised by respondents about the length of time it would take to remap codes	Remapping of cost codes to the DPS will be required. We will be working with industry and the MOD to ensure that the level of detail is suitable for all parties.
Security markings	To include appropriate security markings and handling instructions highlighting the criminal offence for unauthorised disclosure.	We propose including the following wording on the report templates: “OFFICIAL – SENSITIVE – COMMERCIAL. The disclosure of protected information included in this report in circumstances not permitted by Schedule 5 of the Defence Reform Act 2014 is a CRIMINAL OFFENCE.”

6. Overall response to feedback

We were grateful for all the feedback we received. The comments received from the consultation will be the first step in developing the DPS, which we envisage will be a longer term process. We will be holding a working group to discuss the DPS further.

We will also be working with early QDC adopters to establish appropriate DPSs.

Next Steps

The SSRO will continue to develop the DPS. All QDCs, in the absence of a DPS, are required to provide level 1 data. We will work with early adopter QDCs and the MOD to develop the DPS levels further. We recognise this will take time.

The contract notification report will not be required to be resubmitted as a more detailed DPS is built up. Any updates to the DPS can be captured in the interim contract report.

We will develop a set of principles for the DPS, these principles will include details on how to complete a DPS, how and when to edit a DPS if the example templates provided are not suitable for the QDC and the level of detail to be included. We will be working with industry and the MOD to develop templates that can be used as a basis for the DPS. We have 7 example DPSs that will be used in these discussions, in addition to the sea system which was issued for the consultation. There will not be a separate and distinct DPS for every contract.

Until a DPS is developed, the process for agreeing the DPS will be for it to be agreed in discussion between the contractor, MOD and the SSRO.

When the SSRO issue guidance on DPS, industry and MOD will be required to have regard to it when preparing reports, in accordance with 24(2)(d) of the Defence Reform Act.

