

## Opening letter from Chair, Jeremy Newman



Dear Stakeholders

It has been an eventful summer, and this newsletter gives details of the work we have been doing both internally and externally since the last edition.

July and August have proved to be particularly busy months. In addition to publishing our Corporate Plan 2015-18 and our first Annual Report and Accounts being laid in Parliament, we celebrated the first anniversary of the establishment of the SSRO on 14 July. Throughout the summer, together with the SSRO's Chief Executive and Director of Regulation, I have met with most of the prime defence contractors to discuss issues emerging from the introduction of the single source procurement regime, and have visited some of their facilities. These visits provide a useful opportunity to meet many of you in person and to discuss our work and the issues you see as key challenges for the SSRO to tackle.

This edition of the newsletter provides information about the two-day training course attended by our staff at the Defence Academy, Shrivenham. The programme included sessions on the Royal Navy, British Army, and Royal Air Force, giving a helpful insight into the requirements of our armed forces as 'end users'. The newsletter also discusses our public consultation on the SSRO's Compliance Report methodology, which ran from July to the end of August. We are currently working through the views we have received and will publish our response in the coming weeks. The first Compliance Report will be published in January 2016.

I am pleased to be speaking at the RUSI Defence Acquisition conference on 9 September and Marcine Waterman will be speaking at the DSEI conference on 15 September. We hope to see many of you at these events.

I hope you find this edition of interest and I look forward to furthering our productive working relationship.

Yours,  


Jeremy

## Introduction

The first qualifying defence contract under the new regime was signed in April 2015, the second was signed in June 2015 and the third in August 2015. We continue to work closely with all parties to the contracts to ensure the procedures and reporting requirements are followed and that parties are complying with the Regulations and our guidance.

Since our May newsletter, we have been working across a number of areas, in consultation with stakeholders wherever appropriate, including: guidance, reporting templates, industry data management, SSRO corporate documents, and SSRO staff development.

## SSRO's first Annual Report and Accounts

The SSRO published its first Annual Report and Accounts on 16 July 2015. The document is available on [our website](#).



The document details the first year of the SSRO, during which the SSRO has:

- introduced a range of new guidance on issues such as the costs which are generally 'allowable' under single source contracts;
- recommended to the Secretary of State that the baseline profit rate for single source defence contracts for 2015 should be reduced to 10.60 per cent;
- provided a suite of reporting templates and user guides to assist industry in completing and submitting reports;
- set out its procedures for issuing opinions or legally binding determinations on matters referred to it by the Ministry of Defence or industry; and
- established itself as an appropriately resourced organisation that is ready for business.

The document also establishes that, over the next year, the SSRO's work will include a fundamental review of the principles and methodologies used to calculate the baseline profit rate paid under single source contracts. It will also collect and analyse data submitted by industry to help the MOD to secure better value for money.

## SSRO's first anniversary

Alongside our Annual Report and Accounts, the SSRO marked its first anniversary on 14 July by evaluating the progress the organisation has made in its first year, and the lessons it has learned. Since beginning work in July 2014, the SSRO has established itself as a fully operational organisation and recruited a highly capable workforce of around 30 staff that stands ready to make a difference.

We have listened to industry concerns and addressed these where appropriate, for example by engaging with industry and the MOD on data protection and publishing a [statement on SSRO handling of confidential and commercially sensitive information](#).

We have met with representatives of a number of national governments and armed forces to discuss single source contracting in other countries.

The infographic produced for the first anniversary of the SSRO can be found on the back page of this newsletter or on [our website](#).

## Corporate Plan

Our [Corporate Plan](#) was published in June 2015. The report outlines our aims and objectives for the next 3 years, and puts forward proposals for how we will achieve them. We have identified six key objectives, listed below. The SSRO's first Corporate Plan establishes the vision and work programme for the period 2015 - 2018.

The SSRO's objectives are:

1. Be a fair and transparent adjudicator between the MOD and industry.
2. Issue authoritative and impartial rates and guidance.
3. Use the data provided to us to analyse the impact of the new regulations.
4. As an expert on single source procurement, keep the Defence Reform Act and Regulations under review.
5. Be a good employer and value our people.
6. Be financially responsible and target our resources where they will have greatest public benefit.

The SSRO's aims are to ensure that good value for money is obtained in for the taxpayer in government expenditure on qualifying defence contracts, and that defence suppliers are paid a fair and reasonable price under those contracts. In delivering these aims we will at all times be independent, transparent and professional.

Our performance against each objective will be measured by a series of key performance indicators.

The document also explores the SSRO's role, the regulatory challenge within the defence sector, the risks to delivery of the Plan, and our performance in 2014/15.

## Database for storage and management of data

Following a competitive tender, we have engaged Landmark Information Group, an expert information management solutions supplier, to develop a pilot for a system to enable us to collate, process and manage the data that will be provided by defence industry suppliers reporting on qualifying defence contracts and qualifying sub-contracts. The pilot version of the database went live in June 2015. We will collate the lessons we learn during the pilot and intend to procure a long-term solution via an OJEU tender process, which will begin in autumn 2015.

## SSRO training at the Defence Academy, Shrivenham



One of our corporate objectives is to be a good employer and value our people. As part of this objective we encourage staff development and are supportive of training wherever appropriate. We recognise the need for our people to be well informed and knowledgeable about the industry we regulate and the environment we operate within.

The SSRO staff attended a two day training course at the Defence Academy in Shrivenham in August, which provided an overview of single source defence acquisition in the UK. SSRO staff heard from and engaged with a number of representatives from the Royal Navy, British Army, Royal Air Force, DE&S, the wider civil service, industry and academia.

The programme included individual sessions on the armed services, defence capability development, defence acquisition and defence commercial procurement training. The programme was designed to actively engage SSRO staff and to provide further insight into the various requirements of the different parties engaged in the acquisition process.



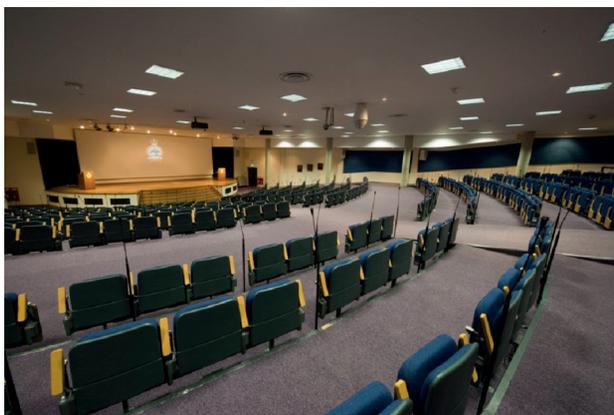
The SSRO would like to extend its sincere thanks to the Defence Academy and all those who contributed to the excellent programme, in particular Kathy Clarke, Mark Jenkins, and Wing Commander Colin Hill.

## Stakeholder engagement

The SSRO held the second industry working group in June and the second Senior Stakeholder Forum is scheduled for 17 September. In addition, the Chair, Chief Executive and the Director of Regulation have been meeting industry over the past few months, with a continuing schedule of office and site visits.

The Chair and Chief Executive have also been present at, and delivered speeches to, conferences and events throughout the summer, including attendance at the Royal International Air Tattoo, and addressing the ADS SME Defence Committee. The Chair is due to speak at the [RUSI Defence Acquisition Conference](#) on 9 September, about the new Regulations and the SSRO's first year in operation.

The SSRO will also be present at the [DSEI conference](#) from 15-18 September with a stand in the main exhibition area.



Our staff would welcome the opportunity to speak with you in person so please do drop by stand N3-596 in the Air Zone. The SSRO will also be hosting a plenary session at 13.00 on 15 September, at which our Chief Executive, Marcine Waterman, will be delivering a [plenary speech](#) on the SSRO's views on single source procurement in the UK, "Independent, fair, transparent: regulating single source defence procurement". The presentation will also provide an update on the SSRO's review of the methodology that will determine the baseline profit rate, and the SSRO's annual Compliance Report.

Please do visit our newly restructured [website](#), follow us on [Twitter](#), or join us on [LinkedIn](#) and [Facebook](#) to find out more about the SSRO, our publications and our work.

## Future work

The next immediate outputs for the SSRO will include:

- publishing our response to the consultation on the compliance rating methodology;
- launching our consultation on the review of the baseline profit rate; and
- publishing the remaining DPS templates.

## Compliance rating methodology

The Framework Document between the SSRO and MOD commits the SSRO to making "publicly available" an annual "Compliance Report", setting out the extent to which "contractors and the MOD have complied with the provisions of the Defence Reform Act and Single Source Contract Regulations".



The purpose of the annual Compliance Report is to be an effective tool for encouraging compliance with the single source procurement regime. It is key to the SSRO's objective of a transparent and accessible regulatory framework. It will increase transparency of single source procurement in defence spending and encourage compliance with the single source procurement regime.

The SSRO has created a methodology to measure defence contractor and MOD compliance with their duties under the Single Source Procurement Framework, from which data and rating scores will be produced. These results will be assessed and published in the SSRO's Compliance Report. The methodology was put to a [public consultation](#) period from late June to late August 2015. We will publish our response to the consultation in the coming weeks.

The SSRO will carry out compliance assessments throughout the year, and publish these at least annually in January. The SSRO may also decide to publish its assessments each quarter during the year. The first Compliance Report will be published in January 2016.

## Defined Pricing Structure

The objective for the Defined Pricing Structure is to establish a single, centrally available, comprehensive data set to determine relationships between costs and outputs, and record the estimated and outturn costs, for every QDC. This will enable future analysis such as benchmarking costs across major projects and the creation of parametrics, while assisting effective contract monitoring without being burdensome.

We have been working with industry and the MOD to develop a DPS for up to 16 item/equipment types or platforms to benchmark costs and analyse value for money in single source contracts. The 16 types are: surface ships; submarines; drones (unmanned aerial vehicles); rotary wing aircrafts; fixed wing aircrafts; track vehicles ("A" class vehicles); surface vehicles ("B" class vehicles); wheeled armoured vehicles; missile systems; specialist equipment; weapon systems; service contracts; radar and communications; ordnance; unmanned marine systems; and IT systems.

We published [the first two DPS templates](#) covering submarines and surface ships, and a principles document on the DPS on 24 June 2015.

We continue to develop the remaining templates and have meetings scheduled with suppliers and MOD during autumn 2015 to receive feedback on the templates. We aim to have all templates published by the end of December 2015.

## Review of the baseline profit rate

The SSRO is currently considering a fundamental review of the methodology used to calculate the baseline profit rate. The current approach has been broadly unchanged since it was introduced in 1968 when the nature of UK industry in general, and the defence sector in particular, were very different to the situation today. It was established at a time when there were more defence contractors, industry was less global and the UK's manufacturing base was very different. We now operate in a more global economy with a more diverse industrial sector and a substantial services sector. Thus, whilst it is likely to be proposed that the new methodology should continue to be based on the principle of comparability it is also likely to suggest that the comparison be made with companies whose business is more similar to that of defence contractors.

The current approach recommended a single baseline profit rate for every type of defence work regardless of complexity and risk. However, defence contracts are increasingly varied in nature and in the level of risk and complexity. Thus, the new methodology is likely to propose a different baseline profit rate for different types of work.

The SSRO is planning to finalise its proposals over the next few weeks and will discuss them, in outline terms, with the Senior Stakeholder Forum on 17 September. The proposed new methodology will be subject to an eight week consultation, open to all interested parties, commencing on 25 September.

Following the consultation, the SSRO Board will meet in December to review the responses and finalise the methodology. In January 2106, the SSRO will publish the final methodology and will make its recommendations on the profit rate for 2016/17 to the Secretary of State for Defence.

## What's on the Board's agenda?

Our website provides both the [agendas and minutes](#) from recent Board meetings.

The SSRO Board has met six times since the SSRO's formation.

The July 2015 board meeting discussed and approved: the final Corporate Plan; the SSRO's Annual Report and Accounts 2014/15; and various policies relating to the SSRO's core functions.

In September, the Board will discuss the compliance report methodology, IT strategy review, information retention and other papers relating to the SSRO's functions.

## Executive Committee and operational issues

Our Director of Regulation and new executive member of the Board, Philip Davies, joined the team in July 2015. Philip is an experienced director of regulatory affairs and an expert in the economic regulation of competitive energy markets. He has worked for two economic regulators, Ofgem and the Civil Aviation Authority, as well as a number of private sector energy market participants, including Centrica, the largest UK retail energy supplier and a major asset owner and trader.



Our Head of Legal Services will be in post from late September 2015.

## Our forward look

SEPTEMBER		
Week of 1 September	Extraordinary Board meeting to consider baseline profit rate	
Week of 7 September	Chairman speech at RUSI Defence Acquisition conference	
Week of 14 September	Executive Committee Referrals Committee	Attendance and plenary speech at DSEI conference
Week of 21 September	Audit Committee	
Week of 28 September	Board meeting	

# SINGLE SOURCE REGULATIONS OFFICE

## THE 1<sup>st</sup> YEAR

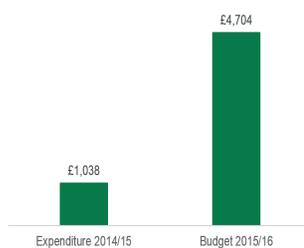
We are the new independent economic regulator of defence procurement in the UK in which there is no competition. Our principal aim is to ensure that:

- good value for money is obtained for the UK taxpayer on defence single source contracts; and
- the defence industry is paid a fair and reasonable price.

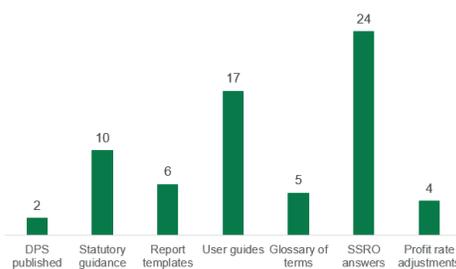
The Single Source Regulations Office (SSRO) began work on 14 July 2014. We have established the organisation and are now ready for business.

This infographic details the SSRO's major developments, trends and achievements from its first year.

### SSRO COSTS



### SSRO PUBLICATIONS



### SOCIAL MEDIA



### PEOPLE

SSRO has 30 staff members



### SPEND

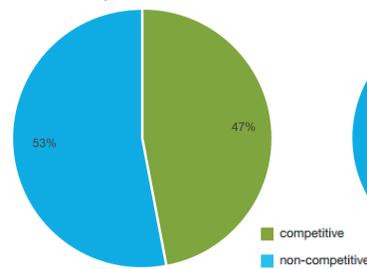
**£8.6 billion**  
 spent by MOD on single source contracts 2013/14

### MILESTONES

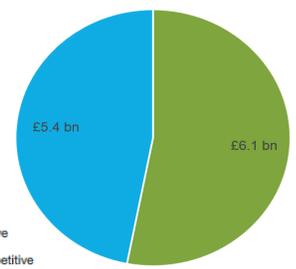
	April - June 2014	July - Sept 2014	Oct - Dec 2014	Jan - Mar 2015	Apr - July 2015
Defence Reform Act					
Chair appointed					
Single Source Procurement Regime					
Board established					
Guidance on allowable costs; reporting; penalty amounts; and adjustments to the baseline profit rate					
First Qualifying Defence Contract					
Database goes live					
Publications, including Corporate Plan 2015-18; and Defined Pricing Structures Principles					
Interim staff number		1	3	10	8
Permanent staff number				2	22

### TRENDS IN SINGLE SOURCE PROCUREMENT

Percentage of 1,977 new MOD HQ contracts placed 2014/15



Value of new MOD HQ contracts placed 2014/15



### PUBLICATION DATES

23 January Contract Profit Rate issued	26 March Profit Rate adjustments issued	23 June DPS Principles Guidance issued	16 July First Annual Report and Accounts published
26 January Allowable Cost Guidance issued	26 March Penalties Guidance issued	26 June Corporate Plan published	15 September SSRO speaking at DSEI Conference
29 January Referrals Guidance issued	27 March Report templates and user guides	29 June Compliance Report Consultation	25 September Profit Rate Methodology consultation issued

### SSRO'S STRATEGIC OBJECTIVES

1. Be a fair and transparent adjudicator between the MOD and industry
2. Issue authoritative and impartial rates and guidance
3. Use the data provided to us to analyse the impact of the new regulations
4. As an expert on single source procurement, keep the Defence Reform Act and Regulations under review
5. Be a good employer and value our people
6. Be financially responsible and target our resources where they will have greatest public benefit



2

Qualifying Defence Contracts



53

MOD published single source contracts awarded since December 2014

For more information on the work of the SSRO visit our website: [www.ssro.gov.uk](http://www.ssro.gov.uk)

**SSRO**

Single Source Regulations Office