

Opening letter from Interim Chair, Clive Tucker



Dear Stakeholders

Welcome to the May edition of the SSRO's newsletter, which provides an overview of our recent work both internally and externally, and sets out our priorities for the near future.

Since the last edition, I have been delighted to take on the role of Chair of the SSRO on an interim basis. The SSRO has achieved a great deal in a relatively short amount of time, and I hope to maintain that momentum until a permanent Chair is appointed later this year. I have already met many of the defence suppliers, but I look forward to engaging with a wide range of stakeholders over the coming months.

The SSRO has now recommended to the Secretary of State the baseline profit rate and capital servicing rates for qualifying defence contracts for 2016/17. The Secretary of State accepted our recommendation and, in March, announced that the baseline profit rate for 2016/17 would be 8.95 per cent, a reduction from 10.60 per cent in 2015/16. The SSRO's new methodology used to calculate the baseline profit rate represents a significant change from the previous 'Yellow Book' regime, with more appropriate and comparable companies now used in the calculations.

Now that the SSRO is a member of UK Regulators Network, we are in discussions with other regulators on what good regulation looks like. It is becoming increasingly apparent that the SSRO is the only regulator in the UK without enforcement powers or statutory information gathering powers. We cannot call for evidence, and have no power of enforcement to aid the delivery of our statutory functions. This newsletter covers the SSRO's ongoing Review of the Regulations, through which we will shortly be launching a call for input on how the legislation could be amended, and this is one of the areas of concern we wish to raise.

This edition provides information on a range of our recent work, including the publication of our Corporate Plan, which sets out our work programme for 2016-2019 and reports on our performance last year. It discusses the updated Single Source Cost Standards, which the SSRO has recently put to consultation. It also provides an update on our refreshed reporting templates and 17 user guides, which assist contractors in submitting reports, and our programme of value for money studies.

I hope you find this edition of interest, and welcome your feedback.

A handwritten signature in black ink, appearing to read 'Clive'.

SSRO

Single Source
Regulations Office

Assuring value, building confidence

We are the independent regulator of non-competitive defence procurement in the UK.

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 for single source work.

This infographic details the SSRO's major developments, trends and achievements.



SPEND

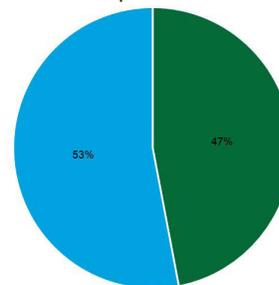
£8.3 billion
spent by MOD on single source contracts 2014/15

BASELINE PROFIT RATE

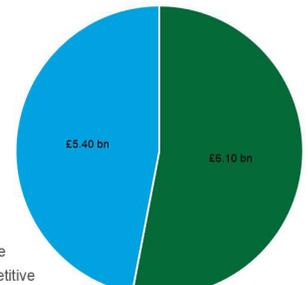
8.95%

TRENDS IN SINGLE SOURCE PROCUREMENT

Percentage of new MOD HQ contracts placed 2014/15



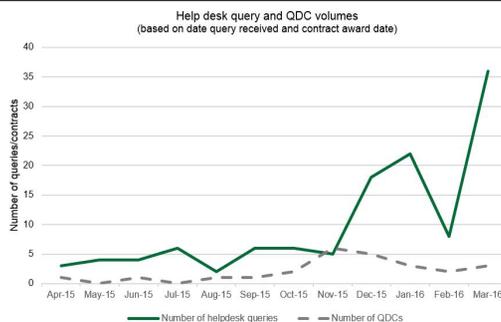
Value of new MOD HQ contracts placed in 2014/15



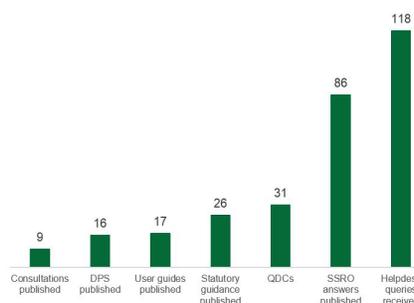
WORK PROGRAMME MILESTONES

SSRO Timeline	April - June 2016	July - Sept 2016	Oct - Dec 2016	Jan - Mar 2017
VFM study on wage inflation - evidence gathering	█			
Single source cost standards - public consultation	█			
Review of Regulations - stakeholder engagement		█	█	
VFM study on wage inflation - publication		█		
Single source cost standards published		█		
Annual report and accounts published		█		
Discussion paper on when to single source - publication			█	
Baseline profit rate preparation for 2017/18		█	█	█
Review of the regulations - public consultation				█
Baseline profit rate to Secretary of State for Defence				█
Annual Compliance report				█

RESPONDING TO QUESTIONS



SSRO PUBLICATIONS



PEOPLE

SSRO has 33 staff members

SOCIAL MEDIA

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WEB HITS 85,275

SSRO'S STRATEGIC OBJECTIVES

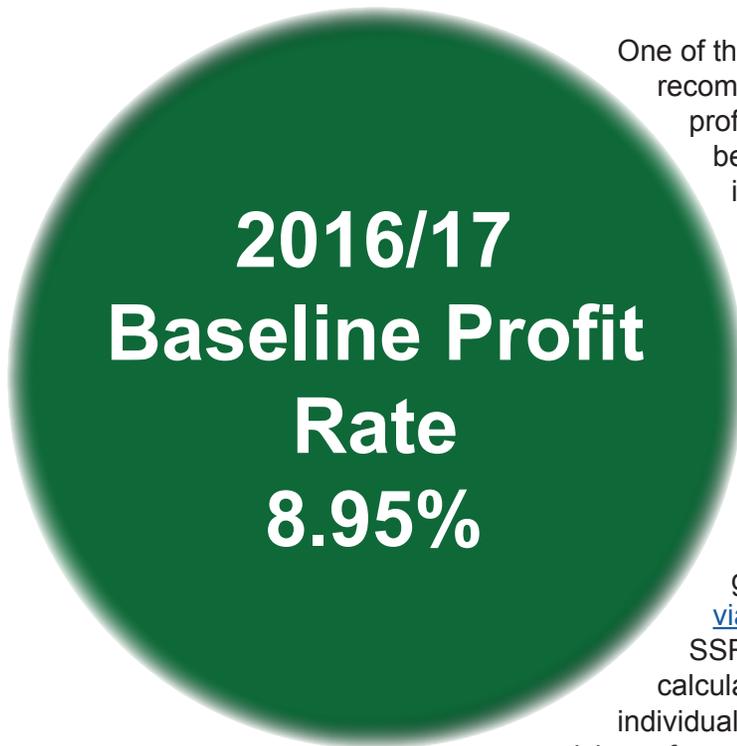
1. Be a fair and transparent adjudicator between the MOD and industry
2. Issue authoritative and impartial rates and guidance
3. Analyse the data provided to us to share best practice and assess compliance
4. As an expert on single source procurement, keep the Defence Reform Act and Regulations under 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



For more information on the work of the SSRO visit our website: www.ssro.gov.uk

SSRO
Single Source
Regulations Office

2016/17 Profit Rate



One of the SSRO's important statutory functions is to recommend to the Secretary of State the baseline profit rate and capital servicing rates that should be applied on QDCs. In our last newsletter, we informed stakeholders of our finalised baseline profit rate methodology, which was published in January 2016 and [can be found at this link](#). We have also recently published a [question and answer document on the methodology](#).

Our methodology for calculating the baseline profit rate uses more appropriate and comparable companies than was previously the case, and we published the list of companies in the comparator reference groups in March 2016, which can be accessed [via our website](#). In addition, on 24 March 2016 the SSRO published [new guidance](#) on the process for calculating adjustments to the baseline profit rate for individual contracts, to take account of factors such as risk, performance incentives and capital servicing rates.

In March, the Secretary of State accepted the [SSRO's recommendations for the baseline profit rate](#) and the capital servicing rates for 2016/17, and these were published in the London Gazette on 15 March 2016. The Secretary of State set the baseline profit rate at 8.95 per cent for 2016/17.

Although the SSRO recommended only one baseline profit rate this year, we are developing multiple profit rates for different activity types from 2017/18. We will consult on multiple rates later in 2016, including the two main activity types: 'develop and make' and 'provide and maintain'. We will also consider rates for specific categories of work that do not fall into these two broad categories, such as construction, ancillary services, and a composite rate for 'develop and make' and 'provide and maintain', to address contracts that have significant elements of both activity types.

News story
New baseline profit rate for defence contractors announced

From: Ministry of Defence and The Hon. James Heaton MP
 Published: 14 March 2016

The baseline profit rate for contracts awarded without competition will be set at 8.95% for the next 12 months.



Down Copyright

The move is designed to ensure that better value is obtained for taxpayers. It represents a 10 per cent reduction in the rate applied to awarded single source contracts signed during 2016. That will reduce profits in 2016 on such contracts, with further reductions expected in future years creating significant savings. All of which will be reinvested into defence.

The rate was recommended to the Ministry of Defence by the Single Source Regulations Office (SSRO). It will apply to new awarded contracts signed from 1 April 2016 to 31 March 2017. The unique nature of much of the MOD's work means the department often has to award contracts to single source contractors, either because there is one specialised supplier or because the procurement must not be put to market.

The SSRO was formed in 2014, following the Corke Review. Its single source procurement is to ensure that such contracts were charged at a reasonable rate both for taxpayers and the companies involved.

Defence Secretary (James Heaton) said:

"It is good to be confident that we are getting better value for money for single source defence contracts as we deliver our 2016 equipment programme. This profit rate provides a fair return to industry while delivering savings that will be reinvested in defence."

The baseline profit rate acts as the starting point for agreeing the profit rate for individual contracts, taking into account factors such as risk, performance incentives and capital servicing rates. The new rate is in line with that applying to comparable defence systems in Western Europe and North America.

Other Notices

Secretary of State for Defence
THE IMPLEMENTATION FROM 1 APRIL 2016 OF NEW PROFIT RATES FOR SINGLE SOURCE DEFENCE CONTRACTS

As required by Section 19(4) of the Defence Reform Act 2014, the Secretary of Defence has announced that he has set the baseline profit rate for single source defence contracts at 8.95%. This is in line with the rate recommended by the Single Source Regulations Office (SSRO). It will come into effect from 1st April 2016 onwards. The Secretary of State will ask that the SSRO further develop the methodology used to calculate the baseline profit rate over the next year.

Secretary of State has also announced new Capital Servicing Rates as recommended by the SSRO, which can be found at Table 1 below:

Table 1: SSRO's Recommended Rates agreed by the Secretary of State for Defence

Element	2015 rates	2016 rates
Baseline Profit Rate (BPR) (% on contract cost)	10.6%	8.95%
Fixed Capital Servicing Rate (% on Fixed Capital employed)	5.94%	5.00%
Working Capital Servicing Rate (% on positive Working Capital employed)	1.72%	1.40%
Working Capital Servicing Rate (% on negative Working Capital employed)	1.03%	0.74%



All details of the baseline profit rate are available on [our website](#).

Allowable Costs

Costs incurred in a contract must meet the test of being ‘appropriate, attributable, and reasonable in the circumstances’ in order to be Allowable under the Single Source Contract Regulations 2014.

We have recently updated our Single Source Cost Standards guidance on Allowable Costs, to clarify issues and address points raised in the first QDCs and feedback we have received through meetings with industry and from queries to our Helpdesk. We have sought to clarify aspects of the guidance and give more clarity on the following areas:

- rework;
- sales and marketing;
- international cooperation;
- impairment of goodwill and amortisation;
- sunk costs;
- allowable cost risk and cost risk adjustment; and
- insurances.

From our reviews of the QDCs notified to the SSRO to date we have identified a number of cases of non-Allowable Costs being claimed. These include faulty workmanship resulting in rework; contingency funding not actually used; and marketing costs incurred on export campaigns in anticipation of future sales that might not materialise. Our first annual Compliance Report, published in January 2016, highlighted such examples. We will be publishing an interim statement on QDC compliance this summer, but it is worth noting that we are currently assessing around £79.95 million of potential non-Allowable Costs in the first 20 QDCs.

We are holding a six week public consultation, which opened on 20 April 2016, and closes on 1 June 2016. Following our consideration of responses to the consultation, we will publish the final guidance document in July 2016.

We strongly encourage contributions from anyone with an interest in the SSRO’s two statutory aims of obtaining good value for money for taxpayers and a fair and reasonable return for industry. We also welcome comments from people or organisations with a particular interest in defence (non-competitive) procurement.

For more information on the consultation, please see [our website](#).



Please complete a [response form](#) and either:

email: allowablecostsconsultation@ssro.gov.uk

or send to:

Allowable Costs consultation, SSRO,
Finlaison House, 15–17 Furnival Street,
London, EC4A 1AB

Reporting templates and user guides

The SSRO’s report templates and user guides set out the reporting requirements for primary contractors relating to QDCs. They assist contractors when completing the statutory reports required for QDCs and qualifying sub-contracts.

The report templates directly follow the requirements set out in the Regulations for each report, while the user guides provide guidance on how to complete the information required by the template.

The SSRO first published report templates and user guides in the first quarter of 2015, and has now published ‘Version 2’ of the report templates and all 17 user guides on [our website](#).

In order to further assist contractors in completing the reports, the most commonly accessed user guides (the Contract Reporting Plan, Contract Pricing Statement, Contract Notification Report and the Quarterly Contract Report) now include screen shots of the report templates for demonstration purposes.

05. DPS Input

The contract reporting plan requires a description of the defined pricing structure (DPS) that the contractor will use.

[HOME](#)

05 - DPS Input

All reports are disclosed as 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**

Enter the DPS title and version number. The DPS templates can be found on the SSRO website. The version number is on the Guidance tab of the DPS template

#	DPS Code	DPS Element Description	Data Input Line?
1	1	Fixed Wing Aircraft	No
2	11	Air Vehicle	No
3	111	Air Frame	No
4	1112	Fuselage	Yes
5	1113	Wing	Yes
6	114	Avionics	No
7	1145	Fox Control	Yes
8	118	Air Vehicle Software	Yes
9	13	Programme Management	Yes
10			

Enter each applicable DPS code from the appropriate DPS template

Enter the description of each DPS element

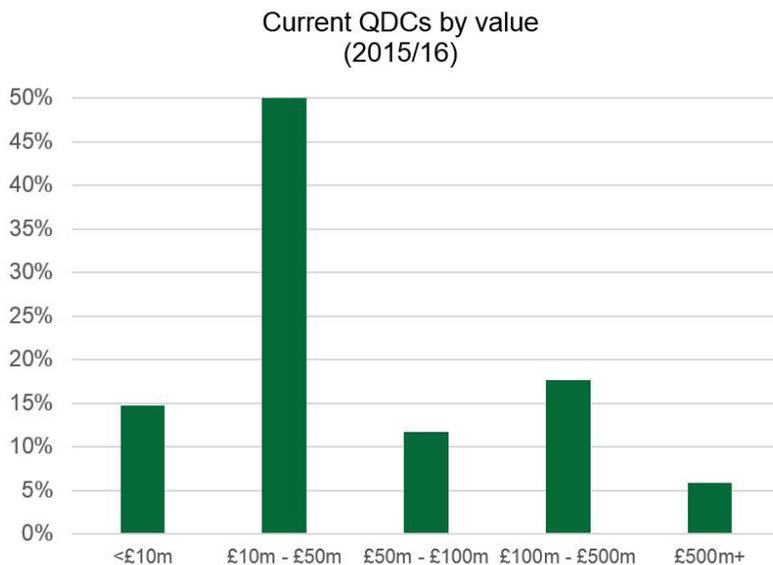
Specify from the drop down list if this is a data input line. All level 1 items will not be a data input line. All level 2 items with subordinate level 3 items will not be data input lines. All level 3 items with subordinate level 4 items will not be data input lines.

An example is shown above.

Qualifying Defence Contract update for first full financial year 2015/2016

The SSRO is required to maintain a register of all QDCs and QSCs. We conduct analysis on the QDCs we have been notified of, and the reports that industry is required to submit for each QDC. The SSRO was notified of 34 QDCs (including 4 QSCs) between 1 April 2015 and 31 March 2016. These 34 QDCs are with 18 defence suppliers.

The chart below demonstrates that the majority of QDCs that have been notified to date are valued at between £10 million and £50 million.

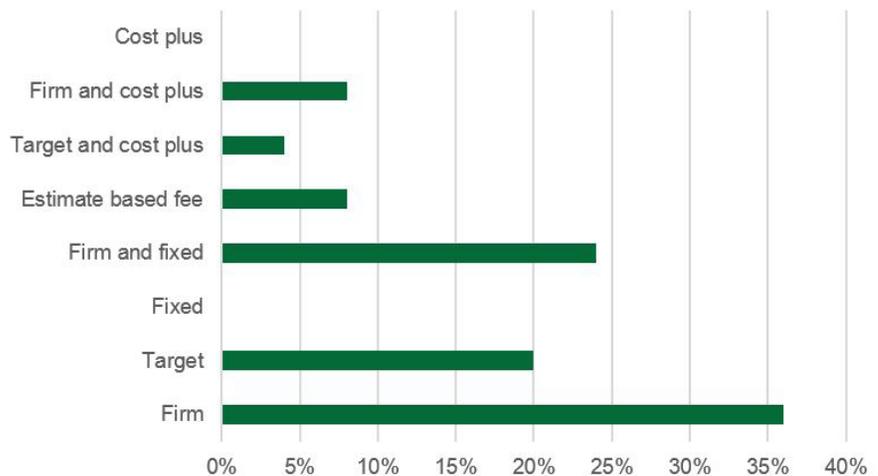


In addition, the majority of contracts use a firm pricing method, as demonstrated in the following chart.

The SSRO continues to assist contractors and the MOD to meet their obligations, through consultations, workshops, meetings, and the SSRO helpdesk.

Please [contact our helpdesk](#) if you require any further information or assistance in meeting the reporting requirements.

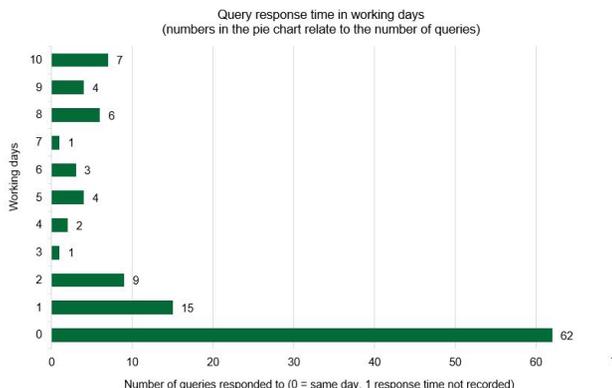
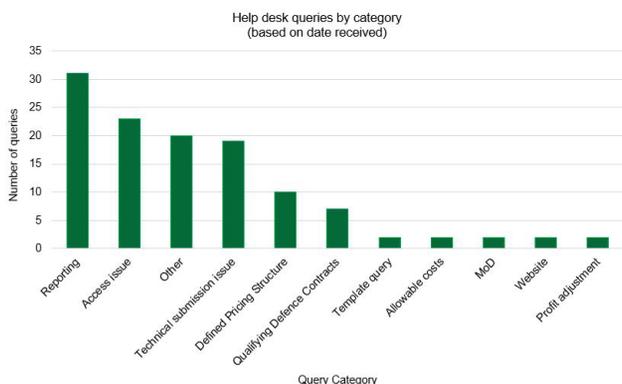
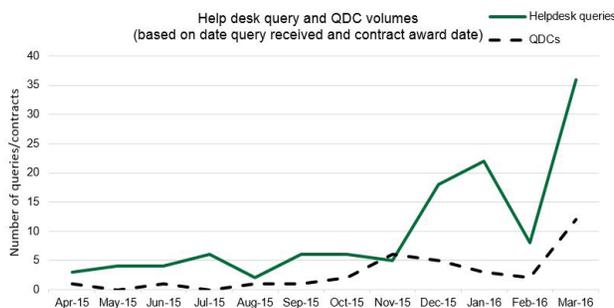
Pricing method used - percentage of contracts (QDCs and QSCs)



You asked, we answered

We saw a significant increase in helpdesk queries in March, largely related to an increase in the number of QDCs notified to us and the first annual reporting deadlines. The majority of queries are from prime contractors with several QDCs.

Latest helpdesk figures at end of March 2016 (120* received, 116 closed)



As the most common queries relate to reporting, we have updated our report templates and all 17 user guides, which is discussed in further detail later in the newsletter.

As you can see from the chart, we respond to the majority of queries within 2 working days.

April’s update to our regular publication [SSRO Answers](#) included three new entries on ‘intention to proceed’ (ITP) arrangements. The SSRO sought to set out its position on ITP arrangements after queries from industry and the Ministry of Defence. The answers reflect the SSRO’s position on ITP arrangements operating under the Single Source Procurement Regime. Consequently, contractors with such arrangements should familiarise themselves with the entries, which are summarised below.

- 1.6 Do the Single Source Contract Regulations apply to overseas companies?
Yes. There are no exclusions to the Single Source Contract Regulations for contracts with overseas contractors and contracts placed under the law of other countries. Therefore all the Regulations and requirements apply to overseas companies.
- 1.7 What is the role of the SSRO in negotiating contracts?
The SSRO has no role in negotiating either QDCs or QSCs.
- 1.8 To what extent does the US-UK Reciprocal Defence Procurement MOU affect the need for US companies to comply with the transparency and other requirements set out in the Defence Reform Act and Single Source Contract Regulations?
The MOU does not take precedence over domestic law in the UK, and US companies party to qualifying defence contracts or qualifying subcontracts are subject to the same transparency and reporting requirements in the single source defence procurement legislation.
- 1.9 Would a contract, under which the price from the relevant contractor is compared against the price of sourcing from an in-house MOD team only, be a QDC?
This contract would be a QDC under the single source defence procurement legislation, provided that all other requirements (value thresholds, date, and not within the exclusions in the Regulations) are met. Benchmarking against an in-house comparator does not amount to a competitive process, as:
 1. a qualifying defence contract under the legislation is one where the MOD procures defence goods, works or services ‘from another person’;
 2. services, works or supplies from an in-house unit are not regarded as ‘contracts’ under other public procurement legislation in force in the UK; and
 3. the legislation does not define a ‘competitive process’. It merely provides guidance in two sets of circumstances (one of which being where there is only one bidder in a competitive tender. It is a QDC if that sole bidder knows theirs was the only offer from that competitive tender).
- 1.10 Does the single source procurement framework apply to a PF/PPP contract?
A public finance initiative (PFI) is a procurement method where the private sector finances, builds and operates infrastructure and provides long-term facilities management through long-term concession agreements. A Public private partnership (PPP) is a contract between a public and private body.
The framework does apply to PF/PPP contracts. A PF/PPP contract could still be a ‘contract to procure goods or services for defence purposes’ (Section 14 of the Act) and it does not fall within one of the carve outs in Regulation 7. It will be a QDC provided all other requirements in the single source defence procurement legislation are met (value thresholds, date of contract/amendment and not within the exclusions in the Regulations).
- 1.11 Does equipment for use in space (i.e. beyond the atmosphere of Earth) fall under the single source procurement framework?
The framework covers all MOD procurement that is for ‘defence or related purposes’ (Regulation 3 of the Single Source Contract Regulations) that meets the other requirements of a QDC or QSC (value thresholds, date, and single source requirements).

Can an Intention to Proceed arrangement constitute a valid Qualifying Defence Contract (QDC) or Qualifying Sub-Contract (QSC)?

ITP communications or letters are not defined by the Defence Reform Act 2014 or Single Source Contract Regulations 2014. The term is commonly used where a formal contract is under negotiation and work relating to the subject matter of the contract has been, or is to be, carried out before the start of the contract. Other terms used to describe such communications are 'comfort letter' and 'memorandum of understanding', where work is genuinely carried out at risk.

ITPs that do not have effect as binding legal contracts do not constitute QDCs or QSCs under the Act and Regulations.

However, not all ITP arrangements are entirely at risk and a contract may in fact arise in some cases, depending on the particular circumstances. This will be where the required elements for a contract exist: an offer, acceptance, consideration, intention to create legal relations, and certainty of terms. Such ITP contracts may be a QDC or QSC if the other requirements for a QDC or QSC are present.

Which profit rate should be used?

The applicable baseline profit rate is the rate in force at the time of the agreement (Regulation 11(2)). The time of agreement is the date the contract is entered into or the date the price payable is redetermined (Regulation 2(1)).

Where a main contract is entered into during a different financial year to the ITP, the baseline profit rate that should be applied will depend on the nature of the relationship between the main contract and ITP. However, it will generally be the baseline profit rate that applies at the time the main agreement is entered into.

If the ITP is not a contract, then there is only one agreement to apply the baseline profit rate to (i.e. the main agreement). In that case the baseline profit rate will be that which applies when the main agreement is entered into.

How should costs incurred 'at risk' be treated once the main contract is signed?

Work undertaken relating to an ITP may be genuinely at risk and not strictly subject to the single source regulatory framework at the time when it is carried out. However, when incurring costs at risk, contractors should remember that if those costs are later to be incorporated into the price of a QDC or QSC, then they will become subject to the regulatory framework. This means the costs will have to be Allowable, records will need to be kept in relation to them and they will need to be included in reports to the SSRO.

In order to be Allowable, the costs must satisfy the test that they are appropriate, attributable to the contract and reasonable in the circumstances. In determining whether the costs are Allowable, the parties must have regard to the SSRO's Single Source Cost Standards: Statutory Guidance on Allowable Costs. It is possible for costs to still be 'attributable' to the main contract, as required by the guidance, even though they were incurred during an ITP.

SSRO Answers was last updated in April 2016, and includes answers to the most recently asked questions, including for example:

- clarification on the 'cost recovery rate';
- how contract costs and income are to be converted into GBP; and
- issues relating to amendments made to a QDC or QSC.

Should you have any questions about these entries or any other topics listed in SSRO Answers, please email [the SSRO helpdesk](#).

Defence Contracts Analysis and Reporting System (DefCARS)

The SSRO has continued work to develop the successor system to the Defence Contracts Analysis and Reporting System (DefCARS). DefCARS is the central system for the capture, storage and analysis of all data submitted in accordance with statutory reporting requirements for QDCs and QSCs.

On 29 April, the SSRO issued information to shortlisted suppliers and provided key documentation setting out the SSRO's requirements and objectives for the next stage of DefCARS. This was in line with the SSRO's tender and procurement timetable, and represents a significant milestone towards the development of a new system.

The existing pilot of DefCARS was originally procured and implemented in 2015, and has been in use by the SSRO since June 2015. The pilot system will continue to operate until the next stage is operational and all data has been successfully migrated.

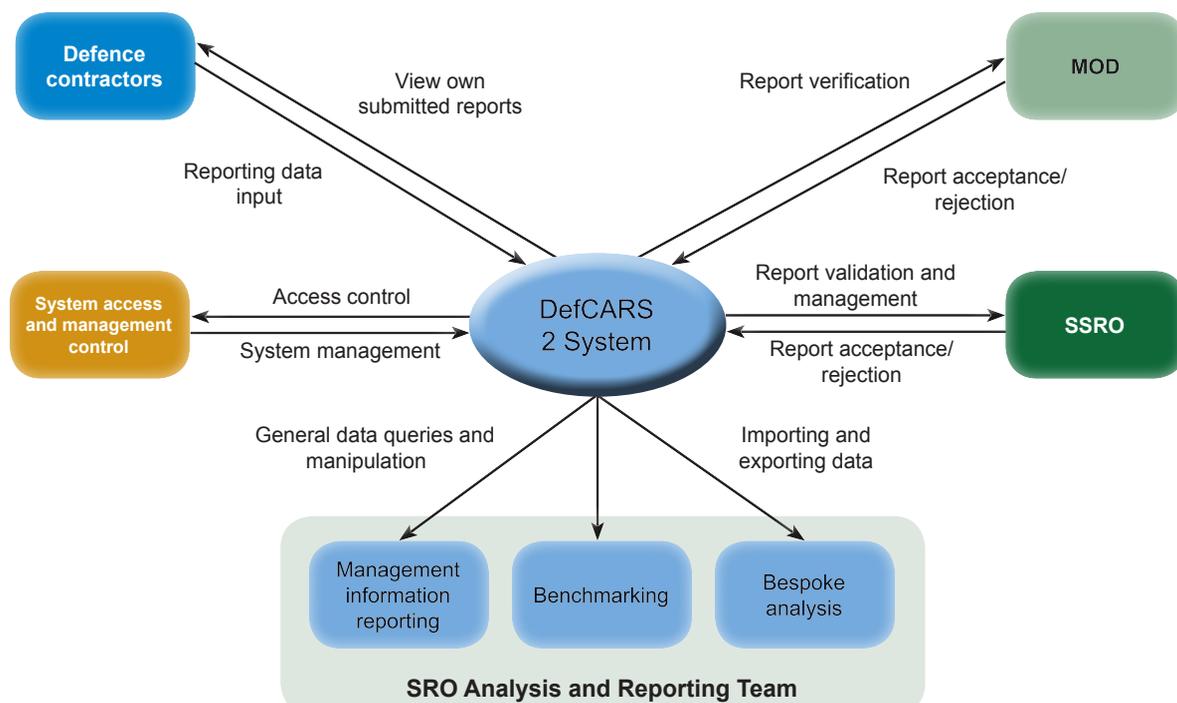
The primary purpose of DefCARS is to maintain the secure capture and storage of data, facilitate analysis and deliver a range of improvements identified from the pilot. The identified improvements are embodied within the following four objectives of DefCARS:

- Improving the capability for automatic validation of data submitted.
- Providing a robust and adaptable system to facilitate any future regulatory changes or capability demands.
- Improving the usability through the development of a logical and efficient user interface.
- Improving the upload, delivery and ability to analyse data.

The SSRO is committed to the secure design, development and operation of the system and will seek accreditation and assurance in line with government and MOD security guidance.

The SSRO intends to award the contract for the next stage of DefCARS in early June 2016, and for the system to go live by November 2016, with all reporting capabilities fully operational by 31 December 2016.

How users interact with DefCARS



Value for Money studies

Following a public consultation, we published our programme of value for money studies in February 2016. The publication covered the SSRO's programme of value for money studies for the next three years, which includes research on the following areas:

Value for money studies programme	
The treatment of inflation in single source contracts	2016/17
Wage inflation in single source contracts	2016/17
Overhead rates used in delivery of single source contracts	2017/18
Cost of the back office	2017/18
Consideration of risk in single source contracts	2018/19
Procurement and contract management processes	2018/19



We are working on two VFM studies for 2016/17 on:

- wage inflation in single source contracts; and
- the treatment of inflation in single source contracts.

The study on wage inflation in single source contracts, has been requested by the Secretary of State under Section 37 of the Defence Reform Act. Through the study, the SSRO will provide evidence on changes to wage inflation and pay policies to inform how such information should be captured and assessed in single source contracts in future.

The research is exploring:

- how wage inflation in the defence industry compares to other sectors and within similar occupations;
- the drivers behind changes to wage inflation and pay policies in single source suppliers; and
- the evidence required or guidance provided in this area and how the MOD assesses this evidence.

We are currently at the data collection stage, and will publish our findings in summer 2016. If you wish to participate or comment on wage inflation issues in public contracts, please contact: vmfstudies@ssro.gov.uk

Review of the Regulations

Under the Defence Reform Act, the SSRO is required to periodically review the Act and Single Source Contract Regulations, and to present its recommendations for alteration of the existing framework to the Secretary of State. We are currently working on the Review of the Regulations and we will be submitting our recommendations to the Secretary of State in June 2017. Whilst this seems a long way off, this is a significant piece of work as it is the first time the legislative framework has been reviewed since it came into force in 2014. We have a comprehensive project plan in place in order to take into account the coverage of the statutory regime and its impact. We are also keen to engage with as many stakeholders as possible in the course of this review and want plenty of time to consider responses received.

Our review will be structured around five themes:

- **Coverage** - definitions of QDC and QSC, and thresholds.
- **Pricing** – formula, Allowable Costs, contract profit rate.
- **SSRO operations** – funding, independence and miscellaneous functions.
- **Referrals and enforcement** – opinions, determinations, compliance and access to information.
- **Transparency** – record keeping, reports, analysis and publications.



We will hold a public consultation in early 2017, but will be engaging with stakeholders on general themes in summer 2016.

SSRO Corporate Plan 2016-2019

The SSRO published its Corporate Plan 2016-2019 in March and it is [available on the SSRO website](#). The Corporate Plan highlights the SSRO's six strategic objectives:

1. Be a fair and transparent adjudicator between the MOD and industry.
2. Issue authoritative and impartial rates and guidance.
3. Analyse the data provided to us to share best practice and assess compliance.
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.

Our new Corporate Plan includes a set of key performance indicators to measure the SSRO's performance throughout the three year period. It also reports on the SSRO's performance against the indicators set out in its previous Corporate Plan.



Stakeholder engagement

We continue to engage with many stakeholders directly through events, workshops, conferences, correspondence and site visits, and we welcome every opportunity to do so.



Photo: SSRO meet with AgustaWestland Ltd facilities at Yeovilton, part of the helicopter division of Leonardo.

The SSRO has met with prime defence contractors to discuss specific issues on QDCs, reporting requirements, and to visit several of their facilities. We continue to assess and analyse reports for the QDCs of which we have been notified, and work closely with all parties to the contracts to ensure the procedures and reporting principles are followed and compliance with the Regulations and our guidance.



Photo: SSRO meet with Babcock at Devonport.

The Chairman, Chief Executive, and SSRO staff continue to represent the SSRO at conferences, events and workshops in order to engage with stakeholders, inform interested parties of our work, and keep up-to-date with developments in the fields of defence and government regulation.

Site visits by the SSRO in 2015/16



Key
● = visits by Board members
● = visits by SSRO staff

Below are just some of the organisations we have recently been engaging with.



UK Regulators Network annual conference



On 18 April, the SSRO attended the [UK Regulators Network \(UKRN\) annual conference](#).

The event included presentations from and panel discussions with senior experts, including: Cathryn Ross, Chief Executive Ofwat and outgoing UKRN Chair; Caroline Normand, Director, Consumer and Competition Policy, BIS; and Lord Adonis, Chairman of the National Infrastructure Commission. The presentations and panel discussions were followed by group workshops that examined different aspects of regulation, including the evolving role of independent regulation, and the role of new technologies.

The SSRO found it a very useful event to talk about pertinent issues with other regulatory bodies, with plenty of interesting and stimulating discussions.

Future work

The SSRO's current priorities are set out below.

Single Source Cost Standards

- Reviewing responses to ongoing consultation on Allowable Costs.
- Final guidance to be published by the end of June 2016.

Determination

- Matters referred include sales and marketing costs and cost risk adjustment to the profit rate.
- Due to be published in May 2016.

Wage inflation

- The SSRO's first Value for Money study is on the subject of wage inflation. The research will provide evidence on changes to wage inflation and pay policies in the defence industry and how this has changed over time, in order to inform how information on wage inflation should be captured and assessed in single source contracts in future.
- We encourage anyone with an interest in contributing to the study to contact us: vmfstudies@ssro.gov.uk
- An analytical report summarising the SSRO's findings will be published in summer 2016 in agreement with the Secretary of State.

Review of Regulations

- Continuing work to inform the SSRO's review of the Regulations.
- Engaging with stakeholders on general themes in summer 2016.
- Submitting final recommendations to the Secretary of State by June 2017.

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

Our people



Clive Tucker was appointed interim Chair of the SSRO in February 2016

He has been a non-executive member of the SSRO since September 2014, is the Chair of the SSRO's Referrals Committee and a member of the Regulatory Review Committee.

When asked what he'd like to achieve during his time as Chairman, Clive responded:

"I'd like to keep up the momentum established by my predecessor. The SSRO has achieved a great amount in a relatively short period of time and we can already see the cost saving impact of the regime, with the SSRO currently assessing almost £80 million of potential non-Allowable costs in qualifying defence contracts. We are also seeing compliance improve as both industry and the MOD become familiar with the regime. A personal highlight for me is visiting defence contractors and their facilities. Such visits give you an invaluable insight into the capabilities and manufacturing processes and people employed in the defence industry.

"In terms of my priorities, I want to ensure a solid grounding for the SSRO's Review of the Regulations, which is an important piece of work. We want to provide the Secretary of State with evidence-based recommendations that will reliably inform his own review. Aside from that, our wage inflation study is the first piece of work commissioned directly by the Secretary of State. One of our corporate objectives is to be the expert on single source procurement and this is an ideal chance to demonstrate that we are."



Ian McPherson formally joined the SSRO in March as Director of Compliance and Investigations

What inspired you to take up the role at the SSRO?

I have spent the vast majority of my life either in or working in support of the public sector. Increasing budgetary pressures on defence spending, a shrinking defence manufacturing base and an ever more volatile and dangerous world makes the new role of the SSRO all the more important and I could not think of a better vocation.

What are your main priorities at the moment?

My short to mid-term priorities are to ensure that clarity is given around the Allowable Costs guidance, that the reporting regime is robust and as painless as possible for defence contractors to comply with, and that we are a fair and transparent adjudicator between the MOD and industry when assessing referrals. To do this, I aim to ensure that our staff are motivated, skilled and enabled.

What are your longer term aims in the role?

My longer term aims are to ensure that we create an atmosphere of trust, encouraging compliance with the Defence Reform Act and the principles that it espouses. This will ensure that we have a vibrant and profitable defence industrial base, and get value for money for the tax payer.

What do you hope to achieve over all at the SSRO?

I hope that, as a result of our regime, front line commands are able to act with improved agility and get the equipment capability that they require in a timely and affordable manner.

What do you like about working at the SSRO?

I believe firmly that the first duty of government is to protect its citizens and keep the country safe. I believe that this can only be done by having cutting edge capability for the Armed Forces, and if money is spent wisely then we will be able to spread it more widely. The SSRO is also a new and niche organisation with the very best people, and that is rewarding.

Matthew Rees joined the SSRO in March as our Director of Analysis and Reporting



What inspired you to take up the role at the SSRO?

This is a fantastic opportunity to help shape a new regulator and lead a team, and step up as a Board Member. It offers a range of professional challenges that draw upon my experience of value for money from my prior role at the NAO, fair and reasonable returns from my banking career and competition and regulatory issues from the Competition Commission.

What are your main priorities at the moment?

Directing a study about wage inflation in the single source procurement landscape for the Secretary of State. Preparing for the assessment of multiple profit rates that we intend to derive for application to single source contracts in 2017/18.

What are your longer term aims in the role?

Setting a clear strategy for the SSRO's analytical and reporting activities that balances value for money for the taxpayer with fair and reasonable returns for the defence industry. This will be focused primarily on the profit rates and Allowable Costs regime.

What do you hope to achieve over all at the SSRO?

I hope to work with colleagues to ensure that the SSRO is highly regarded as an independent and authoritative organisation.

What do you like about working at the SSRO?

The SSRO is a small, nimble organisation with a strong focus on delivery of a range of high profile duties that relate to a fascinating industry that supports national defence and security. There are opportunities to take a hands on role in a range of areas including conducting consultations, performing analysis and writing reports, participation in industry discussions, and working with senior departmental officials.

Director of Corporate Resources, Neil Swift, competed in this year's Virgin London Marathon for his local running club Orion Harriers and managed a fantastic time of 2 hours and 54 minutes. His aim was to secure a place for next year by qualifying as a 'good for age' runner which he achieved. The plan next year is to go under 2 hours 50 minutes. He said, it was a fantastic day with lots of incredible support from the crowds, particularly from his running club, friends and colleagues at the SSRO who managed to attend the race. He is encouraging colleagues at the SSRO to take up running and has started a running club at our London office. Not too sure many of us will be joining him next year though!



Dates for the diary



13 May	16 May	18 May	23 May	27 May	31 May
SSRO Chairman participating in a RUSI roundtable event on the politics of monitoring	Publish Determination	Board meeting	Publish a 'call for input' on the Review of the Regulations	Joint Navy Command/SSRO Board event	Publication of SSRO Answers
SSRO at MOD finance conference					



1 June	7 June	21 June	24 June	27 June	29 June	30 June
Single Source Cost Standards consultation closes	Chief Executive to address Advanced Command and Staff Course at the Defence Academy	Board meeting	Signed annual report and accounts submitted to NAO	Publish interim statement on regime compliance	Quarterly UKRN CEO meeting	Briefing event for legal firms on regulating single source contracts
	SSRO available to meet and answer questions at Abbey Wood					Publication of SSRO Answers