

Opening letter from Interim Chair, Clive Tucker



Dear Stakeholders

Welcome to the September edition of the SSRO's newsletter. It has been a busy summer for the SSRO, and this newsletter provides an overview of our recent work both internally and externally, and sets out our priorities for the near future.

This week we published a discussion paper entitled 'Perspectives on non-competitive defence spending', in which academics, defence experts, accountants and former members of the military reflect on the aspects of single source procurement that work well and those where changes might be needed. The paper is an excellent read, and we hope that it starts a discussion about single source procurement and its use both in the UK and abroad, as representatives from Germany and Canada have also kindly shared insights from their own countries' experiences. I am very much looking forward to the event we are planning in partnership with RUSI on 16 November to continue this interesting discussion, and I look forward to seeing many of you there.

We have also just launched the second stage of our review of the regulatory framework for single source defence contracts. This [call for input](#) focuses on transparency, and we welcome views from interested parties on issues such as what information contractors should provide about qualifying defence contracts (QDCs) and qualifying sub-contracts (QSCs) by 4 November. Feedback from this call for input will be used to inform our full consultation document, on which we will be consulting widely before making our final recommendations to the Secretary of State in June 2017. You can read more about our review and call for input on page 3 of this newsletter.

Developing our Defence Contracts Analysis and Reporting System (DefCARS) continues to be a high priority for the organisation. Following the successful DefCARS 1 pilot programme, we signed a contract for DefCARS 2 in August with Synectics Solutions Ltd. I am confident that the replacement system will provide a smoother and better reporting experience for contractors, while providing the SSRO with greatly enhanced data analytical capabilities. Ahead of the transition, we have conducted an internal review of the information that is submitted into DefCARS and our user guides, and this is explored in more detail later in the newsletter.

Finally, I would like to draw your attention to our statistical bulletins, which we started producing in May and have proven very popular. The reports, using suitably anonymised data, give an insight into the characteristics of single source contracts, which I believe will promote further transparency to the single source regime.

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

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

Single source discussion paper

“Single source procurement can deliver savings if the objectives are clear, contracts are managed in the right way and the right culture exists between the customer and supplier.”

Clive Tucker, SSRO Interim Chair

On 15 September 2016 we published our single source discussion paper, '[Perspectives on non-competitive defence spending](#)'. The aim of the paper was to obtain expert opinion on single source procurement from a range of individuals across academia, military, accountancy, and defence, to inform the discussion around single source procurement and its use – both nationally and internationally.

The paper draws out 6 key themes from the contributions:

- the assessment of Value for Money;
- innovation and steps to promote it through single source procurement;
- culture and behaviours in establishing a strong customer supplier relationship and ensuring value for money;
- skills development in the negotiation of single source contracts;
- the wider strategic and economic benefits of single source procurement; and
- the role of the SSRO and the single source procurement regime.

The discussion paper finds that single source procurement can deliver savings if the objectives are clear, contracts are managed in the right way and the right culture exists between the customer and supplier. Use of single sourcing also needs to be more transparent. It is important that the public are able to understand when contracting with a single supplier is justified and why competition was not possible.

We are very grateful to all of our contributors for providing their expertise and views.

As part of our work promoting discussion around single source procurement and its use, we are pleased to announce that we will be jointly hosting an event with RUSI to launch the paper on 16 November, at RUSI in London. The confirmed speakers are Lord Currie, Professor Matthew Uttley, Professor John Louth, Cate Pye and SSRO interim Chair Clive Tucker.

Places are subject to availability so if you are interested in attending this event please contact [Simon McCullough](#) by Friday 30 September 2016 to register your interest.

“Around half of MOD’s £15 billion per year procurement spend is through contracts that are not competed. We cannot make savings of the required magnitude - and therefore acquire all of the military equipment we need - without addressing such a significant part of our spend. One key contribution for making the savings is implementation of the reforms set up by the Defence Reform Act 2014.”

Sir Gerry Grimstone, Lead Non-Executive Board Member for the MOD

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Contributors



Assuring value, bi Lord Currie

Lord Levene

Cate Pye

Graham Beal

Major General Tim Tyler

Sir Gerry Grimstone

Paul Everitt

Les Mosco

Professor Matthew Uttley

Professor Andrew Dorman

Dr. Benedict Wilkinson

Professor John Louth

Professor Keith Hartley

Regina Dornieden

Hans-Peter Müller

Captain Ludwig Lennartz

Martin Ditzer

Desmond Gray

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 our review of the legislation and we will be submitting our recommendations to the Secretary of State in June 2017. The chart below sets out the key themes we are seeking comments on as part of call for input process.

Theme	Content
Coverage	<ul style="list-style-type: none"> Definitions of QDC and QSC Thresholds
Pricing	<ul style="list-style-type: none"> Formula Allowable Costs Contract profit rate
SSRO operations	<ul style="list-style-type: none"> Governance Funding Miscellaneous functions
Referrals and enforcement	<ul style="list-style-type: none"> Opinions Determinations Compliance
Transparency	<ul style="list-style-type: none"> Duty to notify Record keeping Contract reporting Supplier reporting

The SSRO launched its first call for input in May 2016 and this closed in July. We are currently analysing the feedback from stakeholders, and are grateful for the submissions we received.

We launched our second call for input on 12 September, which focuses on transparency, and in particular:

- Duty to notify – what events and circumstances should contractors be required to notify?
- Record keeping – what records should be kept and to what extent should there be open book access?
- Contract reporting – what information should contractors provide about qualifying defence contracts and qualifying sub-contracts?
- Supplier reporting – what information should suppliers provide about overheads, SMEs and industry capacity?

The second call for input is due to close on 4 November. We strongly encourage our stakeholders to respond to this call for input as it will inform our recommendations to the Secretary of State in June 2017.

Responses to the Call for Input should be submitted by email to: reviewofregulation@ssro.gov.uk or telephone 020 3771 4767.



There will be further opportunities to contribute to this work, including a widespread public consultation on our proposed recommendations, which is scheduled for early 2017.

SSRO research and analysis

In May we launched our series of statistical bulletins, which use anonymised information gathered through QDC reports to provide analysis on the characteristics of single source contracts in 2015/16. We are delighted to see the interest that has been generated by these reports and that they have been downloaded from the [SSRO website](#) more than two thousand times.

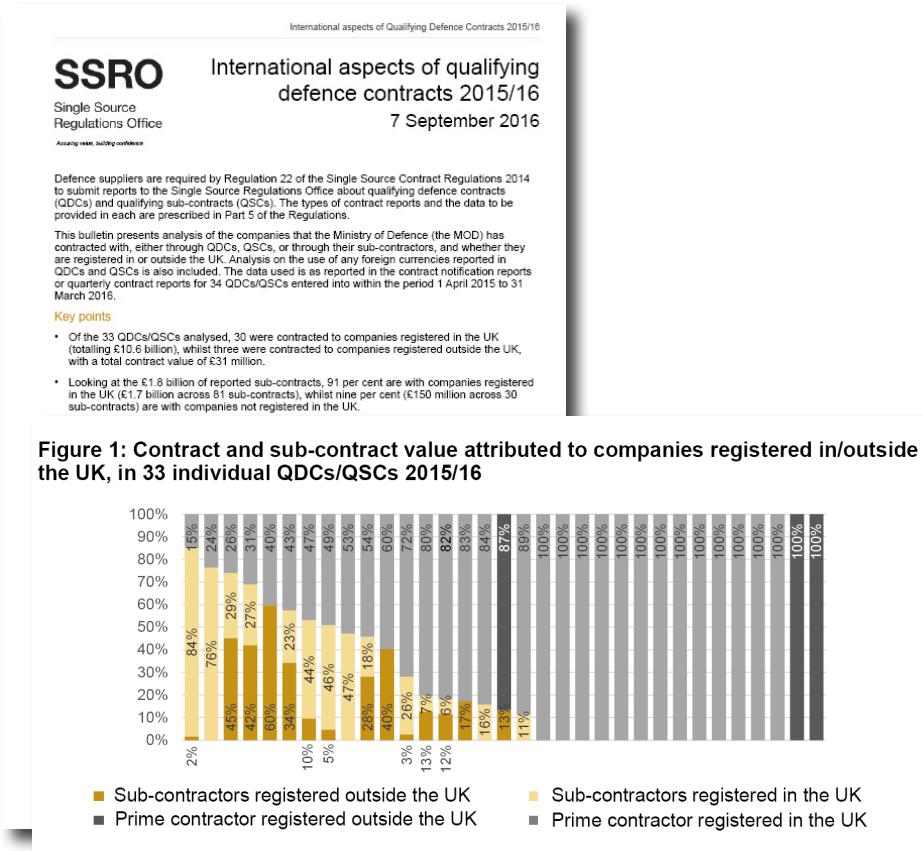
So far we have published six reports:

[International aspects of Qualifying Defence Contracts 2015/16](#)

Our latest statistical bulletin, published earlier this month provides an analysis of the country that contractors and sub-contractors involved in QDCs and QSCs are registered in, as well as the use of foreign currencies within these contracts.

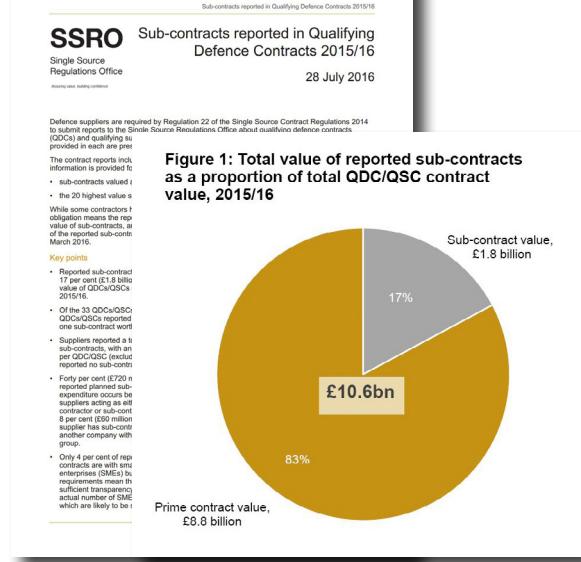
The analysis shows that the majority of QDCs/QSCs are with companies registered in the UK (30 of 33 QDCs/QSCs analysed), while only three are with companies registered outside the UK. By value, £10.6 billion of QDCs/QSCs are with companies registered in the UK, and only £31 million are with companies registered outside the UK. 91 per cent (£1.7 billion out of £1.8 billion) of sub-contracts are with contractors who are registered in the UK. There are 30 sub-contracts with companies registered outside of the UK, with a total value of approximately £150 million.

The vast majority of significant payments to be made by the MOD for 33 QDCs/QSCs are in pounds sterling, with 99.9 per cent of reported payments in sterling and only 0.1 per cent in other currencies.



Sub-contracts reported in Qualifying Defence Contracts 2015/16

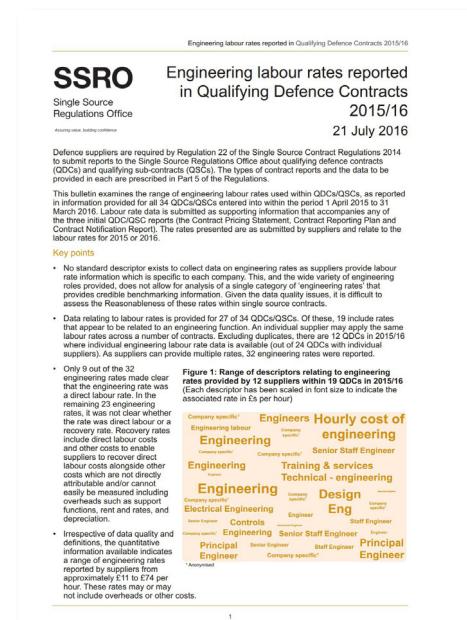
This report provides an analysis of the reported sub-contracts for 33 QDCs/QSCs entered into between 1 April 2015 and 31 March 2016. It highlights that sub-contracts comprise 17 per cent (£1.8 billion) of the total value of these QDCs/QSCs (£10.6 billion). Of the 33 QDCs/QSCs analysed, 19 reported at least one sub-contract worth over £1 million.



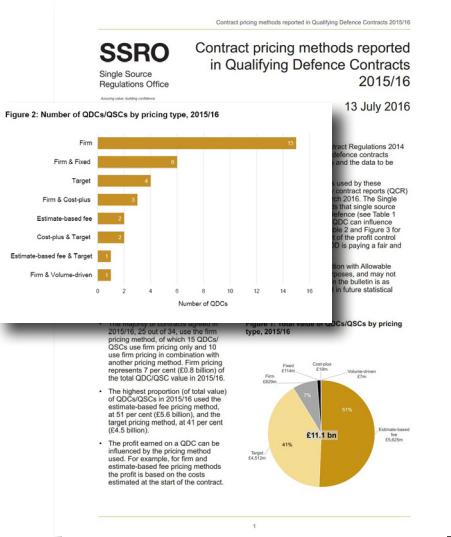
Engineering labour rates reported in Qualifying Defence Contracts 2015/16

This report gives an overview of the engineering labour rate data provided in contract reports for QDCs/QSCs entered into in 2015/16. It finds that:

- No standard descriptor exists to collect data on engineering rates as suppliers provide labour rate information that is specific to each company.
 - Data relating to labour rates is provided for 27 of 34 QDCs/QSCs. Of these, 19 include rates that appear to be related to an engineering function.
 - Only 9 of the 32 engineering rates made clear that the engineering rate was a direct labour rate.
 - Irrespective of data quality and definitions, the information available indicated a range of engineering rates reported in single source contracts range from approximately £11 to £74 per hour.

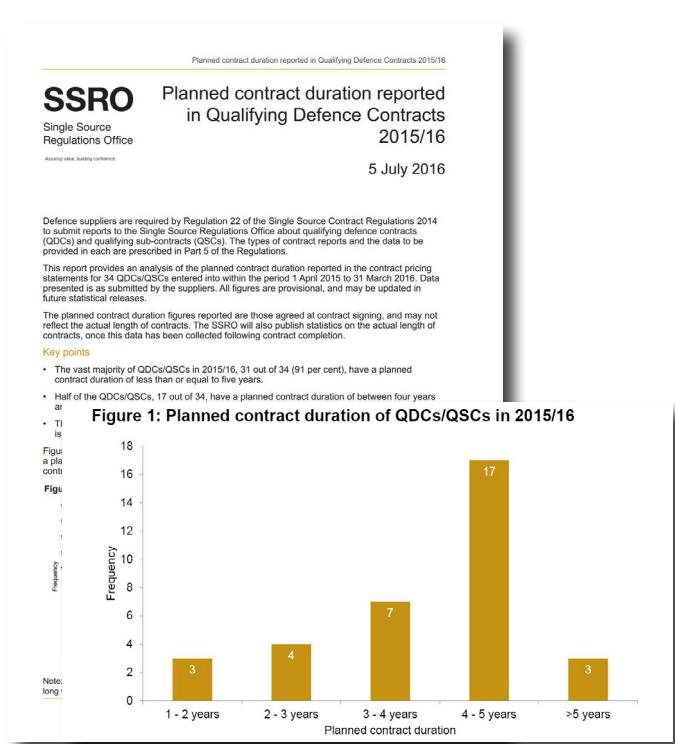


Contract pricing methods reported in Qualifying Defence Contracts 2015/16



The Single Source Contract Regulations 2014 introduced six regulated pricing methods that suppliers are permitted to use when pricing single source contracts with the MOD. When different pricing methods are used, the same variation between estimated and actual costs can lead to contrasting outcomes in the contract price and amount and percentage profit, even when the contract profit rate, and actual Allowable Costs are exactly the same. This report analyses the contract pricing methods used in 34 QDCs/QSCs entered into in 2015/16, and shows that almost three quarters of contracts agreed used firm pricing either as the only method, or in combination with another pricing method. By contrast, the analysis also found that firm pricing represented just 7 per cent (£0.8 billion) of the total QDC/QSC value in 2015/16. The highest proportion of QDCs/QSCs in 2015/16 used the estimate-based fee pricing method, accounting for 51 per cent (£5.6 billion) of total value.

Planned contract duration reported in Qualifying Defence Contracts 2015/16



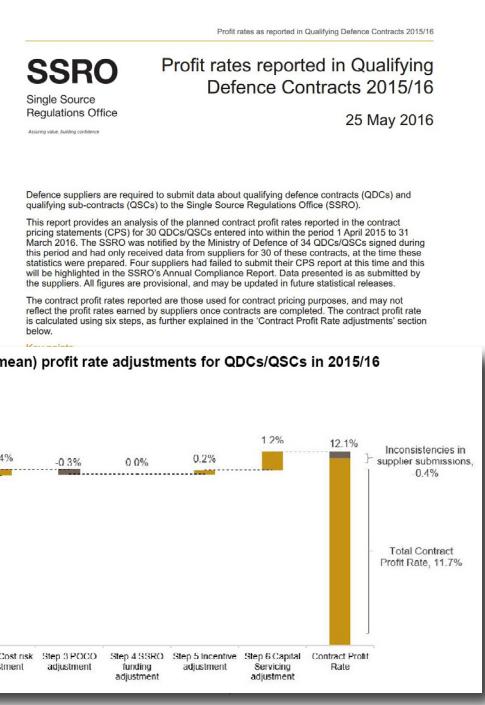
This report highlighted the planned contract duration reported in the contract pricing statements for 34 QDCs/QSCs entered into between 1 April 2015 and 31 March 2016.

The analysis showed over 90 per cent of QDCs/QSCs in 2015/16 had a planned contract duration of less than or equal to five years, and only three contracts reported a contract length of over five years. The median average planned contract duration is 4.3 years.

Profit rates reported in Qualifying Defence Contracts 2015/16

This report provided an analysis of the planned contract profit rates reported in the contract pricing statements (CPS) for 30 QDCs/QSCs entered into within the period 1 April 2015 to 31 March 2016, of which the SSRO was notified. Contract profit rates for individual QDCs/QSCs ranged from around 5 per cent to just under 16 per cent. On average, QDCs/QSCs reported a contract profit rate of 11.7 per cent in 2015/16. This is an average uplift on the baseline profit rate of 1.1 per cent. Excluding the Profit On Cost Once (POCO) adjustment, it was 12.0 per cent.

The graph above, published in the report, shows the average profit rate adjustments for QDCs/QSCs in 2015/16. All but seven of these contracts reported a higher contract profit rate than the baseline profit rate of 10.6 per cent, once the subsequent steps had been applied.



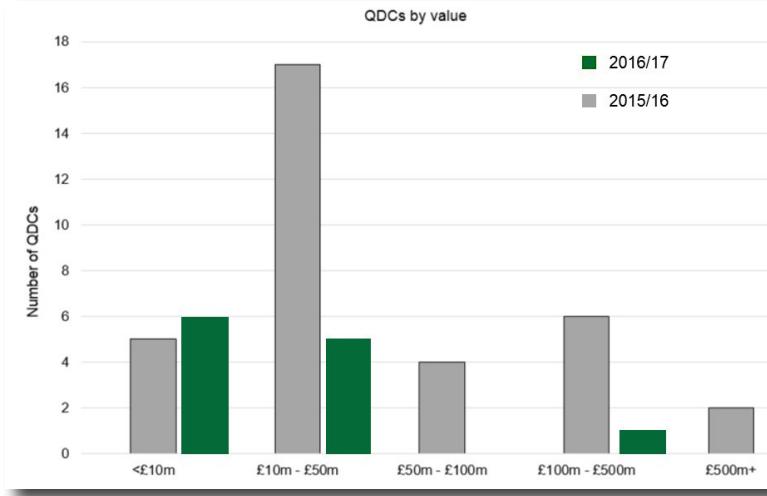
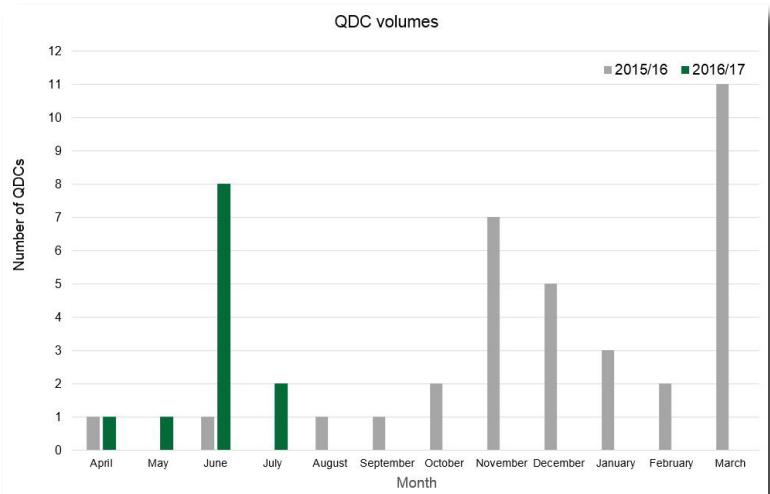
"Our statistical bulletins play an important role in increasing transparency within the single source regime, whilst respecting commercial sensitivity by preserving anonymity. The reports shine a spotlight on the range of contracting methods, costs, profits, and duration of qualifying defence contracts, and future bulletins will monitor how these aspects vary over time"

Matthew Rees, Director of Analysis and Reporting

QDC volumes

The first chart shows the number of QDCs that the SSRO has been notified of in 2015/16 and so far in 2016/17 respectively. The second chart demonstrates the QDCs by value that we have been notified of in 2015/16 and so far in 2016/17 respectively.

While we are pleased to see an increase in the number of QDCs referred to the regime so far in 2016/17 compared to the corresponding months in 2015/16 we note that, taking the average number of QDCs received over the entire year in 2015/16, we have actually seen a decrease in the number of QDCs that we would have expected to see so far in 2016/17.



Comparison of the 2015/16 QDC spend against the MOD's reported non-competitive spend in their annual 'Trade, Industry & Contracts' statistical bulletin (only where an organisation was paid more than £5 million) shows that only approximately 15 to 20 per cent of the MOD's non-competitive spend is regulated by the SSRO in the form of QDCs/QSCs.

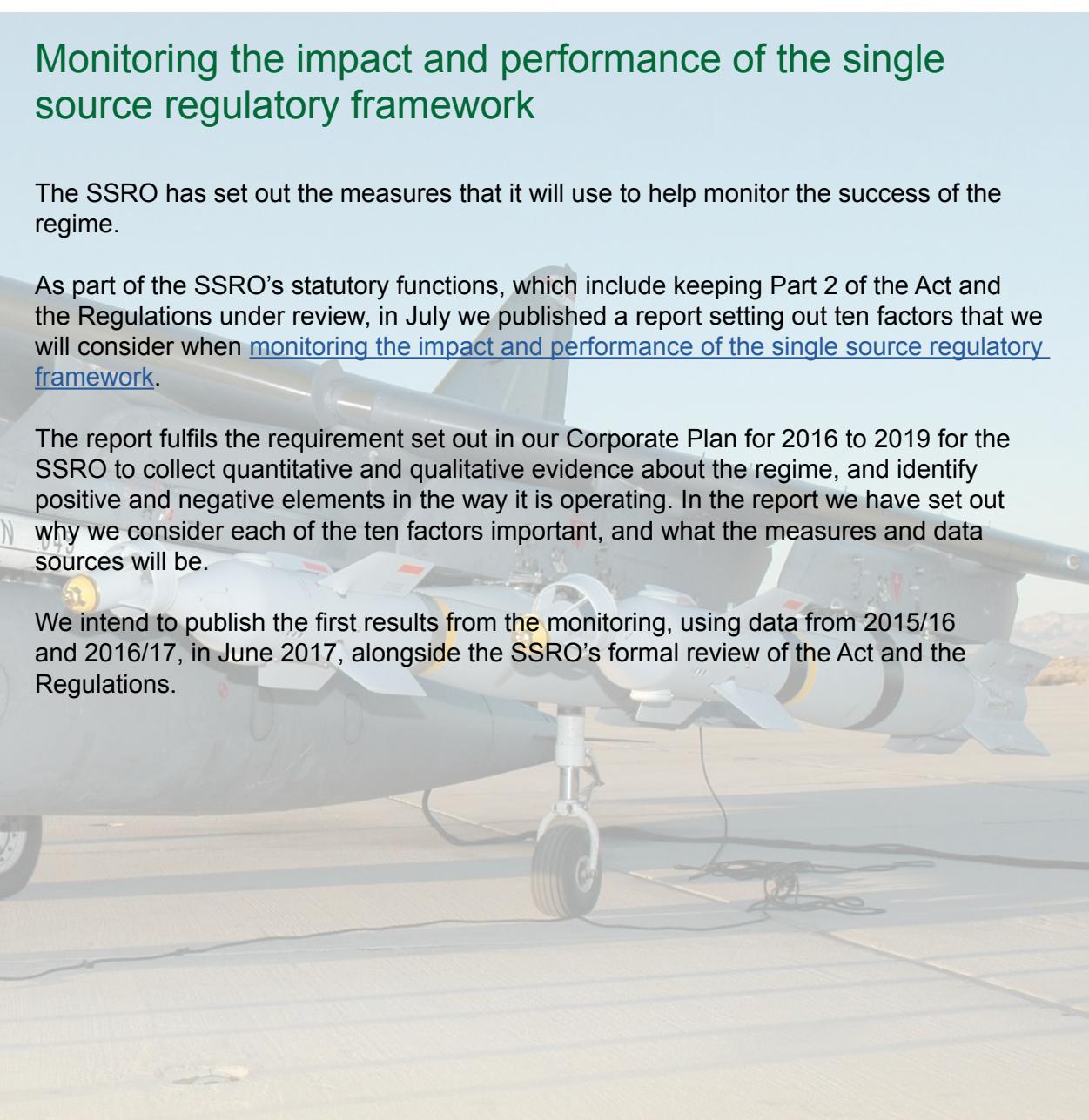
Monitoring the impact and performance of the single source regulatory framework

The SSRO has set out the measures that it will use to help monitor the success of the regime.

As part of the SSRO's statutory functions, which include keeping Part 2 of the Act and the Regulations under review, in July we published a report setting out ten factors that we will consider when [monitoring the impact and performance of the single source regulatory framework](#).

The report fulfils the requirement set out in our Corporate Plan for 2016 to 2019 for the SSRO to collect quantitative and qualitative evidence about the regime, and identify positive and negative elements in the way it is operating. In the report we have set out why we consider each of the ten factors important, and what the measures and data sources will be.

We intend to publish the first results from the monitoring, using data from 2015/16 and 2016/17, in June 2017, alongside the SSRO's formal review of the Act and the Regulations.



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Monitoring the impact and performance of the single source regulatory framework - July 2016

Defence Contracts Analysis and Reporting System 2 (DefCARS 2)

The SSRO has made significant progress towards the development and implementation of the successor system to the pilot Defence Contracts Analysis and Reporting System (DefCARS). DefCARS is the secure central repository for the capture, storage and analysis of all data submitted in accordance with statutory reporting requirements for QDCs and QSCs.

The existing version of DefCARS was originally procured and implemented in 2015. This system will continue to operate until the successor system is operational and all data has been successfully and securely migrated.

The SSRO signed a contract in August 2016 with Synectics Solutions Ltd to develop the successor system. This followed a competitive tender process conducted during the summer. A dedicated SSRO DefCARS 2 project team has been formed to oversee the implementation of the system, which will be fully operational by early 2017.

Stakeholder consultation and development

The SSRO has received substantive feedback on the system since June 2015 from contractors via its helpdesk. Over 80 per cent of the queries received so far during the 2016/17 financial year have regarded either reporting, DefCARS access, report templates, or technical report submission issues.

The SSRO is also currently assessing feedback received during a workshop event where stakeholders were given an opportunity to input into the SSRO's initial DefCARS 2 proposals. This feedback will be utilised during system development, and the SSRO will provide stakeholders with a comprehensive update on the development of DefCARS 2 at a meeting of the Autumn Operational Working Group. The meeting will also include a presentation and a question and answer session on data security provisions delivered by representatives of Synectics Solutions. A live demonstration of the system will be presented to stakeholders closer to the launch date.

The SSRO is utilising this feedback to develop the successor system's reporting architecture. Key initial changes, which are intended to reduce the administrative burden of completing and submitting reports, include:

- replacing excel report templates with web-based forms;
- a reduction in repeated fields; and
- greater use of auto-filled cells.

The system will also provide the SSRO with enhanced data analysis and reporting capabilities, and will also improve the efficiency of compliance assessments on reporting requirements.

The SSRO has conducted an internal review of report user guides ahead of the transition to DefCARS 2. The SSRO first issued guidance to assist suppliers completing reports in 2015. The primary intention of updating the guidance is to facilitate better understanding of the report templates by users, thereby improving data quality. Updated report user guides will be published ahead of the introduction of DefCARS 2 at the end of September 2016. No changes to the reporting system will be made prior to the 'go live' date of DefCARS 2 in 2017.

Stakeholder engagement

On 20 September 2016 we will be holding our quarterly Operational Working Group, which will focus on DefCARS 2, the SSRO's work on the review of legislation, and a general update from the SSRO.

The SSRO continues to engage with industry on matters of importance in meeting the requirements of the single source procurement regime. We continue to conduct site visits in order to engage with industry staff and acquire a better understanding of defence companies.



Picture: The SSRO team visited General Dynamics in South Wales

We have also maintained a focus on familiarising SME contractors with the requirements of the regime. SSRO staff have met with SMEs to discuss issues of the single source procurement framework that might affect them when entering into a QDC, and to help them comply with the regime.

SSRO senior staff and Board members attended the Farnborough International Airshow in July. Our Chair, Chief Executive and Board members met with representatives from industry and toured the exhibits. It was an engaging and informative experience, and was a fantastic showcasing of the British defence industry.

In June the interim Chair delivered a speech to the RUSI Defence Acquisition Conference 2016 entitled: "[Single source procurement: what's working, what isn't and what needs to change](#)". During his speech, the interim Chair discussed:

- the benefits the new single source procurement regime has brought, and that it will continue to bring;
- the SSRO's initial findings from monitoring of qualifying defence contracts;
- how the SSRO works with industry and government; and
- the future of the regime.



Also in June, our Chief Executive Marlene Waterman was invited to deliver a lecture to the Advanced Command and Staff Course, Shrivenham. The ACSC is a 46-week residential course run at the Joint Services Command and Staff College at the Defence Academy and provides professional education covering a wide spectrum of military defence and security issues for a select cadre of UK and international military and civilian officers. The lecture focused on:



- The provenance, role and responsibilities of the SSRO.
- Current SSRO work and future priorities.
- When single sourcing is appropriate.
- Defence benchmarks.
- Our value for money studies.
- Future developments and challenges.

In June, staff from the SSRO spent the day at Abbey Wood, manning a pop-up stand to answer questions. The SSRO engaged with a large number of Abbey Wood staff keen to learn more about the requirements of the single source procurement framework and the role of the SSRO.

In May colleagues from the SSRO attended the MOD Finance conference in Shrivenham, and again had a stand during attendee arrival and at the breaks between sessions. Around 180 delegates attended and the SSRO discussed single source procurement issues with attendees from CAAS, MOD Scrutiny, and MOD Finance.

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- 53 per cent of new contracts placed during 2014/15 were non-competitive (Source - MOD's trade and industry bulletin 2015).
- The single source procurement regime affects all single source contracts in excess of £5 million.



If you would like to find out more about the SSRO or the single source procurement regime, then representatives from the SSRO will be attending the Abbey Wood site (N2 Atrium) on Tuesday 7 June from 11am – 2.30pm. They are keen to raise awareness of the SSRO and answer any questions from colleagues at Abbey Wood.



Baseline Profit Rate

In July, the SSRO published a consultation on how it intends to update its profit rate methodology and guidance in recommending multiple rates and to implement the SSRO funding adjustment for 2017/18. The consultation included discussion around the two main activity types: 'develop and make' and 'provide and maintain', and also considered 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.

The consultation, which closed on 18 August 2016, has given us the opportunity to consider stakeholder views, and we are currently analysing the responses to inform how we further develop and make adjustments to the profit rate.

The SSRO Board will consider the responses and any recommendations for further changes to the methodology. We intend to publish our response to the consultation later in the autumn, prior to making our profit rate recommendation to the Secretary of State in the New Year. All details of the baseline profit rate are available on our website.

SSRO Annual Report and Accounts

In July, the SSRO published its second Annual Report and Accounts. This document highlighted the SSRO's achievements in FY2015/16, which included:

- recommending to the Secretary of State that the baseline profit rate for single source defence contracts for 2016 should be set at 8.95 per cent;
- issuing one opinion and one determination following referrals from the MOD and industry respectively;
- launching the SSRO's programme of Value for Money studies;
- providing a full set of Defined Pricing Structure templates;
- becoming a 'Prescribed Person' under the Public Interest Disclosure Act, able to receive qualifying disclosures from whistleblowers who work for industry, the MOD and third parties;
- assisting external parties in their clarification of the Regulations through the launch of the SSRO Helpdesk; and
- publishing on a monthly basis the 'SSRO Answers' document, which consolidates the queries received by the SSRO.

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Annual Report
and Accounts 2015/16

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The Annual Report and Accounts also highlighted that the SSRO continuously seeks to ensure good value for money through its own conduct, by being efficient and economic with its own resources. The [Annual Report and Accounts 2015/16](#) can be read in full on our website.

"A clear, transparent and unqualified set of accounts are a demonstration of our commitment to ensuring the taxpayer gets good value for money from the SSRO."

Neil Swift, SSRO Director of Corporate Resources

Our people

Interview with Colin Sharples, Head of Regulatory Policy. Colin is the longest standing member of the



SSRO staff, having assisted in the set up of the organisation.

What is your background?

I've worked in variety of operational roles at board level in the private and public sectors, including in regulation and public sector reform. I came to help the MOD set up the SSRO having completed work on establishing another regulator, the Competition and Markets Authority, with Lord Currie. I think I'm now the longest serving member of the SSRO team!

What attracted you to the organisation?

I'm passionate about things which are at the heart of what the SSRO's aims are all about. Good value for the money for the UK taxpayer, better capability provided more quickly to frontline troops and a thriving and successful British defence industry contributing to UK prosperity.

What is your role as Head of Regulatory Policy?

I lead the SSRO's policy function and our role is two-fold. Firstly we ensure through our information gathering, research, horizon scanning, and visits to defence contractor sites that the SSRO is well-informed and knowledgeable on news and developments in the UK and internationally and that we understand the issues affecting the defence industry and our work. Secondly we lead on external communications with stakeholders, preparing speeches, briefings on policy issues and communication material. We provide a Helpdesk for defence contractors to help them in submitting QDC reports and we publish a monthly SSRO Answers document to increase defence contractors' understanding and knowledge as the Regulations are put into operation. We run a quarterly Operational Working Group for defence contractors for the same purpose and so that we have early insight on emerging issues.

What are your current priorities in this role?

The Review of the Regulations is one of our most important pieces of work. It's a vital opportunity for all those with a stake in the regime, including the SSRO, to recommend improvements to the existing framework so that it works more effectively.

What excites you most about the SSRO?

It's always fascinating to see how defence companies apply technology in smart, innovative and ingenious ways to better protect and equip British soldiers, sailors and airmen. We see examples of this every time we visit defence companies facilities to increase our understanding of their businesses.

Dates for the diary



September	Tuesday 20 - SSRO Operational Working Group
	Monday 26 - SSRO Board meeting
	Tuesday 27 - Consultation on compliance methodology launched
	Friday 30 - SSRO answers published
October	Monday 31 - SSRO answers published
	Monday 31 - Response to profit rate consultation published
November	Wednesday 16 - SSRO/RUSI joint single source discussion event
	Wednesday 30 - SSRO answers published
December	Thursday 8 - SSRO Board meeting
	Friday 30 - SSRO answers published
January	Monday 9 - Consultation on Review of Regulations
	Monday 23 - SSRO Board meeting
	Thursday 26 - Annual compliance report published
	Tuesday 31 - Profit rate recommendation to the Secretary of State