A photograph showing the lower legs and feet of several people, all wearing brown trousers and black leather dress shoes. They are standing in a straight line, suggesting a formal or professional setting.

**SSRO**

Single Source  
Regulations Office

# **Annual Report and Accounts 2016/17**

Assuring value, building confidence



# The Single Source Regulations Office

Annual Report and Accounts 2016/17

Presented to Parliament pursuant to Paragraph 13 (5) of Schedule 4 of the Defence Reform Act 2014.

Ordered by the House of Commons to be printed on 19 July 2017.



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Print ISBN 9781474144896  
Web ISBN 9781474144902  
ID 11051709 07/17

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office.

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# Who we are

The SSRO is a young organisation with an important role to play – **assuring value**, and **building confidence**.

As the independent regulator of the UK government's procurement of non-competeted military goods, works and services, we oversee public spending on a large scale. Single source procurement represents around 55 per cent of new Ministry of Defence (MOD) contracts and the MOD spent approximately £9 billion on these contracts in 2015/16.

## A ssuring value

We provide assurance that the single source procurement regime is credible, transparent and provides value for money for the taxpayer in the absence of competition.

## B uilding confidence

Our work builds confidence in non-competitive procurement, from:

**Defence contractors.** Who will receive clear guidance on Allowable Costs, a fair profit and an independent third-party view.

**Our armed forces.** Who are entitled to receive the operational capability they need, on time and to budget.

**Taxpayers.** Who will benefit from appropriate transparency on costs and assurance that their money is being spent appropriately and effectively.



“We share the same aim as our stakeholders - getting the right product at the right price and at the right time. We want to engage closely with the key organisations in the sector and beyond, becoming the trusted go-to source for thought leadership and analysis. By working together, we can deliver our aims and build a better platform for cooperation and delivery.”

**George Jenkins, OBE**  
Chairman

# What we do

The Defence Reform Act 2014 (the Act) sets two aims for the SSRO - to ensure that:

**1 Good value for money for the taxpayer is obtained in government expenditure on qualifying defence contracts.**

**2 Persons who are parties to qualifying defence contracts are paid a fair and reasonable price under those contracts.**

The SSRO fulfils these aims through a number of activities, which are set out in the Act and the Framework Document between the SSRO and MOD. Our functions include:

## Review of the Legislation

We keep the Act and the Regulations under review, and every five years (starting in 2017) publish recommendations that the Secretary of State has regard to when deciding whether to alter the regulatory framework.

## Opinions and determinations

Referrals to the SSRO can be made where parties to a contract seek clarity on how the regime should work in practice, or are unable to agree on an issue before or after a contract has been entered into.

## Contract profit rate

We make an annual recommendation to the Secretary of State on the baseline profit rate, capital servicing rate and funding adjustment to be applied on Qualifying Defence Contracts in the following financial year.

## Compliance

We keep under review the extent to which organisations are complying with their reporting requirements, and publish an annual report on the effectiveness of the regime.

## Guidance

We issue guidance for the MOD and contractors on:

- the principles they must have regard to when determining whether costs are Allowable on a Qualifying Defence Contract;
- the baseline profit rate and adjustments used to determine the contract profit rate;
- the amount of a penalty that the Secretary of State can issue;
- reporting requirements, through our Defence Contracts Analysis and Reporting System; and
- the Defined Pricing Structure, or cost breakdown, for different types of defence equipment.

## Independent advice and analysis

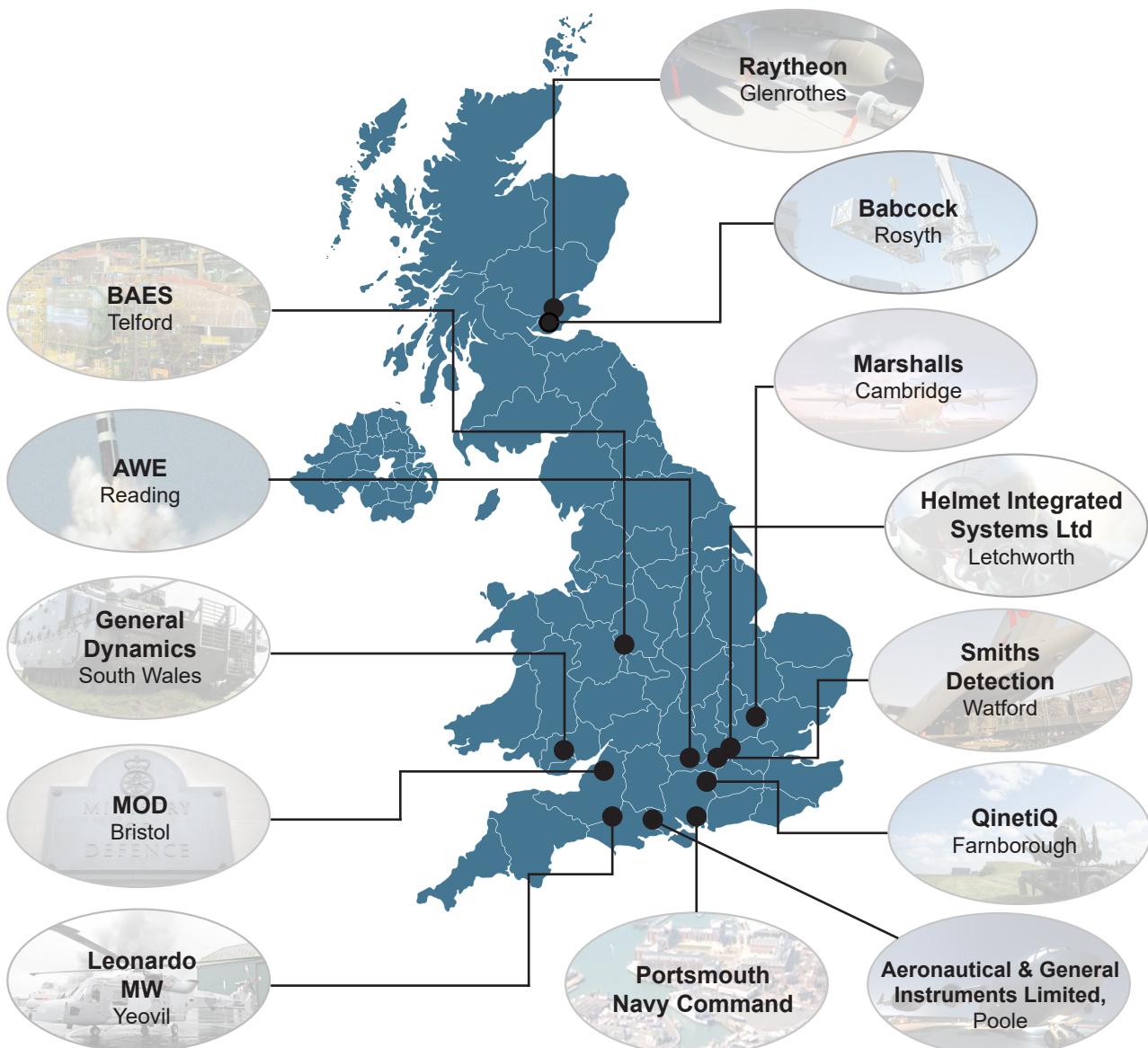
We provide analysis and independent insights, to enable prices to be estimated, contracts negotiated and projects managed in a more informed and effective manner. Our studies programme facilitates improvements by highlighting examples of notable practice and behaviour, which benefit both the MOD and industry.

# Our relationships

...we have visited many of our stakeholders' facilities

We have a wide-reaching and active programme of stakeholder engagement.

We meet regularly with the defence industry, including small and medium sized enterprises, to discuss issues on individual qualifying defence contracts and qualifying sub-contracts and to help them meet their obligations. We have visited many of our stakeholders' facilities, and our new Chairman has made it a priority to meet with defence contractors and key stakeholders since his appointment in January.





We have worked closely with the MOD and industry on changes to policy, amending and updating guidance, introducing DefCARS, and in shaping the recommendations in the review of the legislation. We use this engagement, including consultations and calls for input, as a way of obtaining views, experience and evidence to help us inform our work and deliver better outcomes.

As well as bi-lateral meetings at all levels, we host a Senior Stakeholder Forum, which is attended by senior attendees from the MOD and industry. We also hold regular Operational Working Group meetings, industry events, workshops, and provide presentations on our work.

We have this year sought to engage more widely, for example with comparable international organisations, parliament, academics, think tanks and other government departments. The SSRO is a member of the UK Regulators Network (UKRN), which provides a forum to engage with other UK regulators, ensure effective cooperation between sectors and to share approaches and best practice.

*"In December, we gave evidence to the Defence Select Committee as part of its Inquiry into Defence Acquisition and Procurement. One of the focuses of the inquiry was the SSRO, and how it and the single-source procurement regime, are contributing to UK defence. In our evidence we said that all non-competited defence contracts should be subject to the single source procurement regime, to deliver the greater scrutiny, transparency and value for money that it offers."*

**Marcine Waterman**

# Performance report

# Our activities in 2016/17



The SSRO is having a positive impact on UK defence and we are confident that benefits are already arising from our work and the existence of the regime. These include:

- clearer principles on what costs are Allowable;
- the collection of valuable data that has never been collated before in a consistent format to allow analysis and benchmarking to enable the MOD to be a better buyer;
- cost savings made by the MOD acting as a better customer and industry becoming more efficient, which are reinvested into defence procurement;
- a more robust, transparent and appropriate methodology for calculating the baseline profit rate; and
- providing clarity in how the regime should work in practice through our opinions and determinations.

To realise further benefits and ensure that our two statutory aims are met, we believe that the regulatory framework should be applied to as many contracts as possible, which would therefore be subject to appropriate price control.

The number and value of Qualifying Defence Contracts is increasing, but the majority of non-competitive contracts are still outside of the regime.

With more contracts in the regime, the single source procurement regime has the potential to deliver significant savings, which can be reinvested elsewhere in defence.

**... we believe the regulatory framework should be applied to as many contracts as possible**

## How we assure value

The Defence Reform Act 2014 made significant changes to the way the UK government procures defence equipment and services for its armed forces.

The Act established the Single Source Regulations Office, the independent statutory regulator of non-competitive defence procurement.

Non-competitive ('single source') contracts relate to the delivery and servicing of highly specialised defence capability for the UK's armed forces, mostly large-scale, technically complex, and involving a degree of commercial risk. Single source procurement is used for a variety of reasons including when:

- there is only a single contractor able to deliver the requirement;
- there are strong reasons for maintaining national sovereign capability;
- the required services have specialised or unique characteristics; or
- there are issues of national security.

Single source procurement represents

**55%**

of new MOD contracts placed in 2015/16

compared to 45% competitive

The MOD placed

**£3.6 billion**

of new non-competitive contracts in 2015/16

compared to £11.4 billion competitive

# ...savings of up to £160 million over two years

The MOD has estimated that savings of up to £200 million a year could be achieved through the single source regulatory framework brought into effect by the Act, and we understand that the MOD has so far realised £160 million as a direct result of the regime. The NAO noted in its memorandum on the Impact of the Strategic Defence and Security Review on the Equipment Plan (published on 14 June 2016) that “£1.7 billion of savings are expected to come from the regulatory activities of the Single Source Regulations Office”.

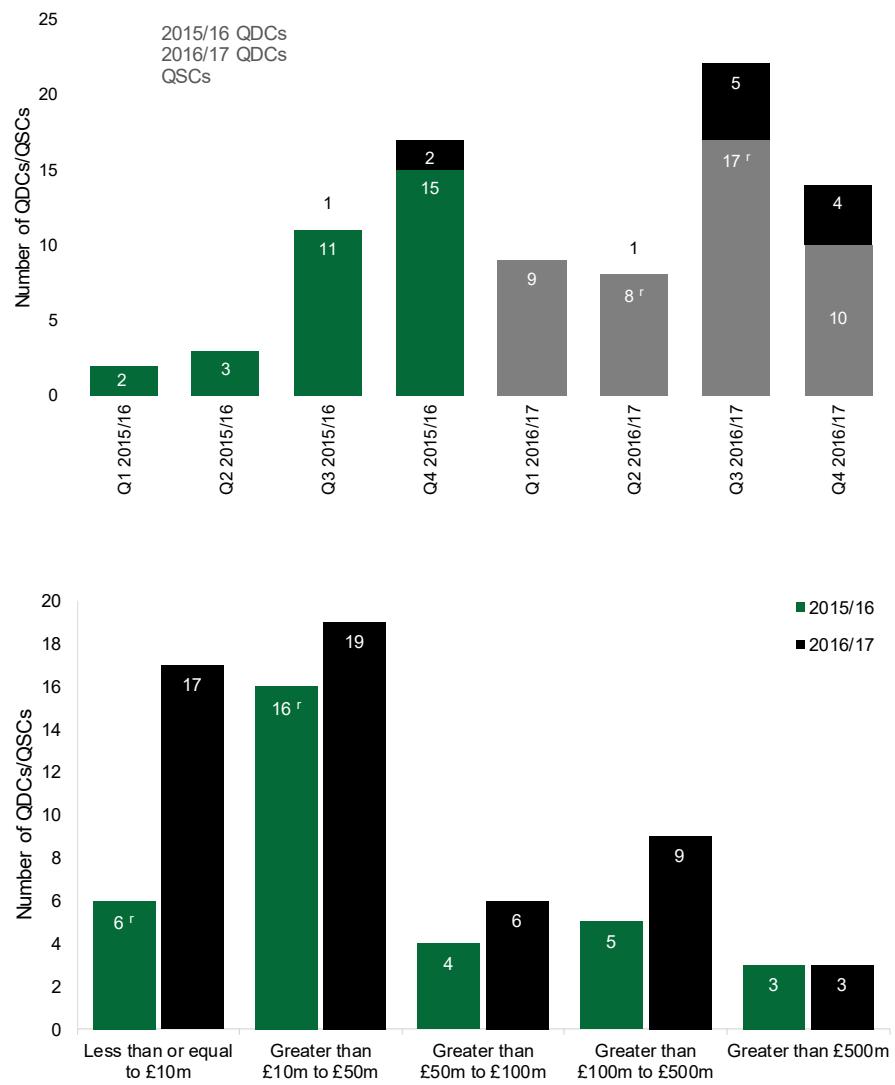
The regime can also help to foster a more efficient and productive defence industry, incentivised to control costs by innovating. The single source procurement regime offers many benefits for industry. It provides more certainty about procurement; delivers greater clarity on what costs the MOD will meet; provides an independent view on costs, or a clarification of the legislation, through referrals; and ultimately, creates greater confidence in single source as a method of procurement.

*“SSRO is a big change in the way in which the procurement picture for defence is now conducted, but in just two years it has already saved us about £160 million”*

**Ministry of Defence Permanent Secretary, Stephen Lovegrove, interview with Civil Service World published on 25 January 2017**



# The number and value of QDCs is increasing, but the majority of non-competitive contracts are still outside of the regime



# Chief Executive's perspective on performance



## Building confidence

In the context of a challenging operating environment and changes at the top of the organisation, we have continued to develop and grow in 2016/17 while delivering our statutory functions.

...in 2016/17  
the SSRO's top  
priorities were:

Defence Contracts Analysis and Reporting System (DefCARS)

Baseline Profit and Capital Services Rates

Compliance Regime

Review of the Legislation

Allowable Costs

Technical support



## DefCARS 2 launched on 15 March 2017

**DefCARS.** DefCARS is the central system for the capture, storage and analysis of all data submitted in accordance with the Act for QDCs, QSCs and qualifying business units. The system allows the introduction of better trend analysis and reports to inform contract negotiations involving the MOD and contractors. Work towards DefCARS 2 has been one of our top priorities since August 2016 when, following a competitive tender process, we signed a contract with Synectics Solutions Ltd to develop, implement and maintain the new system. We consulted on our proposals for the design, and hosted workshops in September 2016, January 2017 and February 2017. We were grateful for the multiple suggestions made by stakeholders at those meetings, which we incorporated into the system's design where possible, with others to be addressed through future system upgrades. The MOD and contractors also participated in testing the system in February. The new DefCARS website launched on-schedule and on budget on 15 March 2017.

**Baseline profit rate and capital servicing rates.** We are required annually to recommend to the Secretary of State the baseline profit rate, capital servicing rates and the SSRO funding adjustment to be applied to QDCs. The Secretary of State for Defence announced on 15 March 2017 that, for 2017/18, the baseline profit rate for qualifying single source defence contracts will be 7.46 per cent. The profit rate was decided following a recommendation from the SSRO, and we welcome the Secretary of State's decision to accept our recommendation. In light of the responses to the consultation we held in the summer of 2016, the methodology for the 2017 contract profit rate increases further the level of transparency for stakeholders about the approach we take. This includes additional transparency on how we identify the comparable companies, how this data is analysed and includes additional information to aid those who may wish to replicate the approach taken.

**...the 2017/18  
baseline profit  
rate is 7.46%**



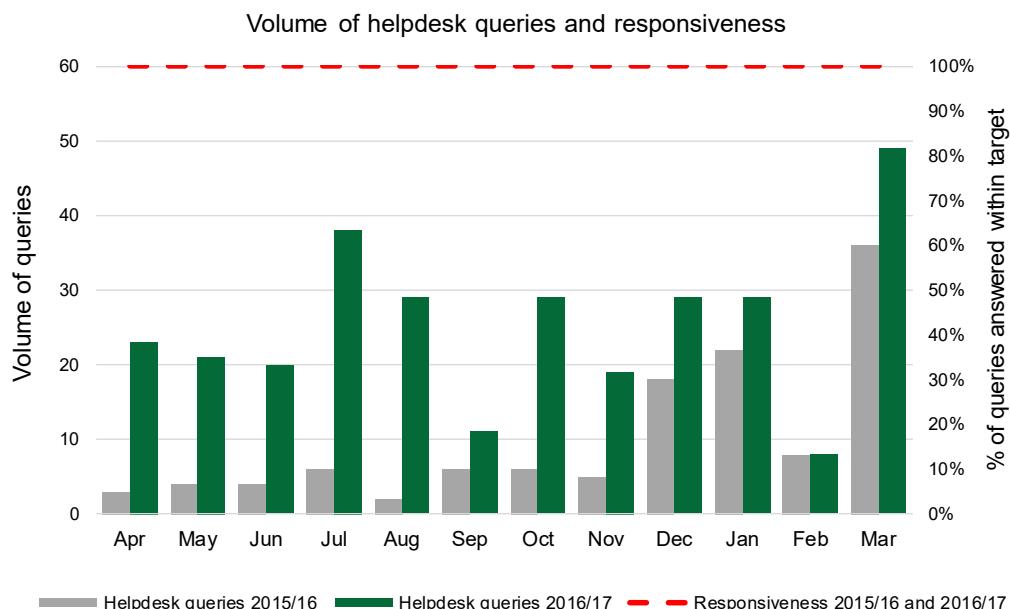
We continue to raise reporting issues

**Compliance regime.** The SSRO is obliged by the Act to keep the regulatory framework and the extent to which organisations subject to reporting requirements are complying with them, under review. We published our updated compliance and review methodology in January 2017. The update reflects our experience to date and the latest regulatory best practice, and takes into account feedback from responses received from industry and the MOD during the six-week consultation that ran from 27 September to 8 November 2016. Using the updated methodology, we report all matters where we identify a failure to comply with the reporting requirements of the Act and the Regulations to both industry and the MOD, which is responsible for issuing compliance notices to suppliers. Our summary of compliance with the regime for 2016/17 will be published at the end of June and will include an analysis of the issues reported to the MOD and the action it has taken in response.

**Review of the Legislation.** The Secretary of State's first review of the regulatory framework is due by the end of 2017, and we are required to submit our recommendations six months in advance for consideration. Working towards that deadline, we launched a consultation on our proposed recommendations in January, following the two 'call for input' documents we published in 2016. We are grateful for all the responses we received to the consultation. Our proposed recommendations aim to improve the regulation of single source defence contracts by: enhancing the transparency on public money; ensuring a level playing field for all of industry; achieving the appropriate coverage of defence contracts; and making the regime stick.

**Allowable Costs.** The Single Source Cost Standards is a statutory guidance document that contractors and the MOD must have regard to when entering into a QDC. It sets clear principles on what costs in a contract are Allowable and so gives defence companies greater clarity and certainty from the outset. Allowable Costs must be ‘Appropriate, Attributable and Reasonable (AAR) in the circumstances’. Following a consultation from 20 April to 1 June, we issued updated guidance on 1 July 2016.

**Technical support.** We continue to assist contractors and the MOD to meet their obligations, through workshops, meetings and the SSRO helpdesk. We also publish ‘SSRO Answers’ monthly, which consolidates the queries we have received on our work and statutory functions since 1 April 2015.



We were delighted to welcome our new Chairman, George Jenkins OBE, in January 2017. During his first three months, he made the SSRO’s relationship with the MOD and industry a priority, and provided a clear vision to direct the SSRO in the short, medium and long term.

Our Board expertise has continued to grow with the appointment of two new non-executive Board members, David Johnston and Terence Jagger, who joined Jane Attwood, Marta Philips and George Jenkins on the SSRO Board. We are grateful to our Board members for continuing to make the important and often complex decisions that are necessary to achieve our statutory aims. We are also grateful for the significant contribution of the SSRO’s former Interim Chairman.

After the year end Neil Swift was appointed as the SSRO’s Interim Accounting Officer.

## ...Appropriate, Attributable and Reasonable

# Key issues and risks for the SSRO

## Our risk environment

The SSRO gains assurance that risks are managed by ensuring controls are robust in design and work as intended. The SSRO Board has considered and set its risk appetite and established a risk management framework. The SSRO assesses risks against its appetite, and operates controls to manage or mitigate the identified risks.

The controls include a Corporate Risk Register, which is considered at the Executive Committee and overseen by the Audit Committee. The Executive Committee also monitors potential risks at each meeting through ongoing performance management, which it reports to the Board.

Most of the risks identified in the Corporate Risk Register are mitigated by the SSRO's plans and actions, which are reflected in its Corporate Plan. The most significant risk that may impact on the SSRO is related to its capacity.

The SSRO's workload is increasing as the regime embeds, placing increasing demands on SSRO resources.

This risk is mitigated by flexible and agile resource plans that can adapt to emerging workload scenarios. The MOD will fund all additional costs associated with referrals, reflecting the variability and uncertainty in this area of the SSRO's statutory functions. We have established flexible framework contracts to source additional support if required to allow the SSRO to react to temporary workload variations.

To mitigate the risk that the SSRO will not have the resources in place to carry out its statutory functions and deliver its objectives, the organisation will regularly review staff numbers and budget. We are seeking an appropriate increase in revenues and staff numbers each year, with four additional members of staff planned for 2017/18.

As the regime becomes embedded and the volume of business as usual work grows, there is a need to keep under review the organisation's resources.



Over the course of the next year the SSRO will undertake several significant pieces of work, which include:

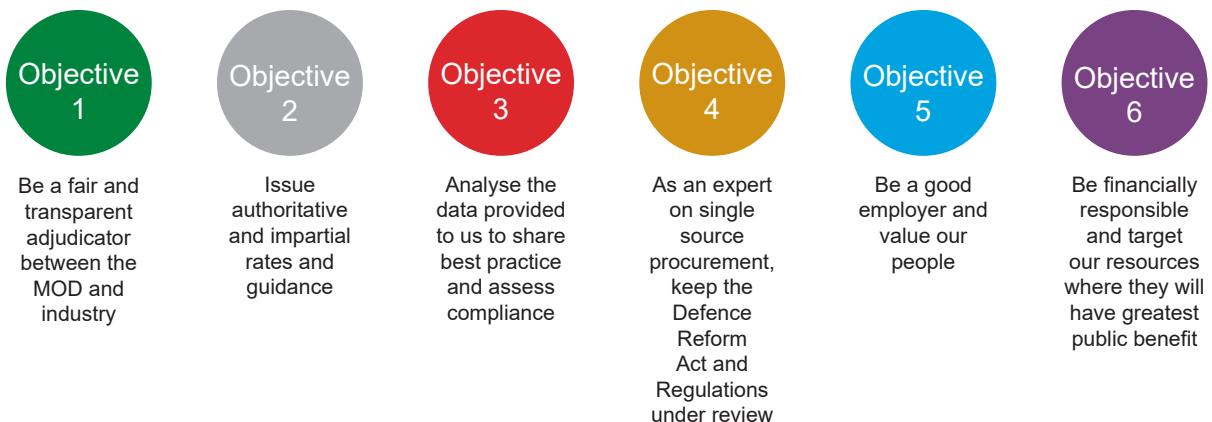
- publishing the updated Single Source Cost Standards;
- recommending the baseline profit rate(s) and capital servicing rates for 2018/19;
- publishing a report on the operation of the regime to measure industry and MOD compliance with their duties and obligations under the Act and Regulations;
- continuing with the SSRO's review of the Act and Regulations, making our recommendations to the Secretary of State for Defence in June 2017;
- publishing regular statistical bulletins;
- undertaking the VFM studies set out in its published programme; and
- analysing the information provided by industry under QDCs.



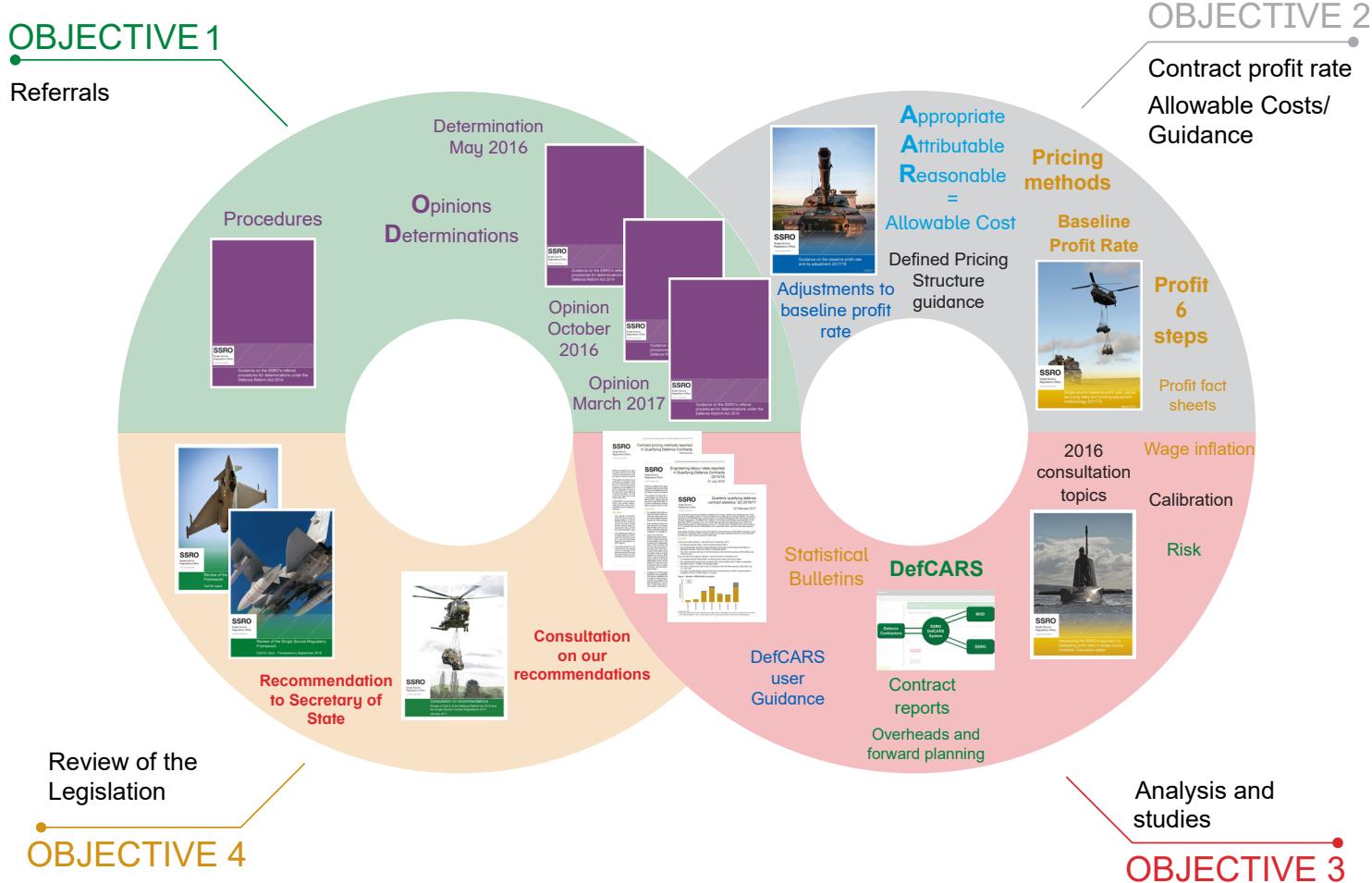
# Performance analysis

## Our clear strategic priorities

The SSRO's Corporate Plan 2016-2019 was published in March 2016, following consultation with the MOD and industry. It included six corporate objectives.



The first four objectives cover the breadth of our activities, while objectives 5 and 6 underpin everything we do.



# SSRO's key measures

## Our KPIs and benchmarks

The Corporate Plan 2016-2019 includes a set of 24 key performance indicators, against which the SSRO measures its performance.

<b>Objective 1</b>	The SSRO will acknowledge receipt of a referral within 2 working days.	The SSRO will decide whether the referral falls within its jurisdiction and contains the requisite evidence and information within 20 working days.	The SSRO will conduct all requests for an opinion within 40 working days of acceptance by the SSRO.	The SSRO will either open a formal investigation on a request for a determination or notify parties that it will not be taking the referral any further within 30 working days of the request for determination being deemed valid.	The SSRO will issue a final determination to the parties and publish the decision and the reasons behind it on its website within 5 working days of deciding to issue a determination in light of responses to the provisional determination.	If the SSRO deems it necessary and appropriate to complete the process outlined and issue a legally binding determination, the final decision will be made within 5 months of the referral being accepted.
<b>Objective 2</b>	The SSRO will recommend to the SoS adjustments to the baseline profit rates, SSRO funding adjustment, capital servicing rate for fixed capital and capital servicing rate for working capital no later than 31 January each year.	Consultations are held on drafts of statutory guidance issued by the SSRO. We will aim to provide a consultation period of at least six weeks for all major written consultations, to allow our stakeholders adequate time to respond.	The SSRO will publish final versions of statutory guidance and analyse responses to consultations on statutory guidance and publish them on our website within 30 working days of consultations closing.	The SSRO will provide substantive responses to questions raised by stakeholders as to the content of our guidance within 10 working days of receiving the question.		
<b>Objective 3</b>	The SSRO will record all qualifying contracts and sub-contracts as well as their duration and will log all new contracts in the contract register within 2 working days of being notified by the MOD.	The SSRO will conduct supplier portfolio analysis. Analysis will utilise supplier reports on areas such as overhead expenditure, rates and capacity and will provide useful comparative management information. Analysis will be completed within 3 months of receipt.	The SSRO will build a database of the estimating and out-turn benchmarks and parametrics, and use this to suggest those which should be used for independent cost estimating tools and to support price and rate negotiations. Relevant information will be provided within 2 months of request.	The SSRO will publish two value for money studies per year.	The SSRO will publish an annual Compliance Report which illustrates MOD and industry compliance with the provisions of the legislation and will be completed and published publicly no later than 31 January each year.	
<b>Objective 4</b>	The SSRO will produce a review of the legislation which will be presented to the Secretary of State and will put forward recommendations on whether the framework should be modified and how. Our reviews will be completed, published and presented to the Secretary of State at least 6 months before his obligation to review the legislation.	The SSRO will consult with stakeholders on the recommendations for legislative change put forward in our reviews. Our consultation on review recommendations will last for at least six weeks.	We will undertake work with regulators in other sectors to consider, among other issues, what lessons can be learnt from single source procurement across the public sector, at least once a year.			
<b>Objective 5</b>	Staff retention of 90 per cent.	Minimum of 3 days average spent per annum per person on formal training.	The level of employee engagement with the organisation; its work and its values.			
<b>Objective 6</b>	Undisputed invoices paid within 5 days.	Required transparency information published within one month of the month end.	Moderate or substantial assurance on all finance internal audit reviews.			

## How performance is measured and how the SSRO performed against these measures

The SSRO's Executive Committee monitors performance monthly against each of our objectives through the regular Corporate Performance Report. This report is also considered at each meeting of the SSRO Board.

Out of 21 key performance indicators for which we have data in 2016/17, 86 per cent (18) were delivered in full, or in progress across the three year Corporate Plan period, and on track to be delivered in full.

Each objective is set out in more detail in the following sections.

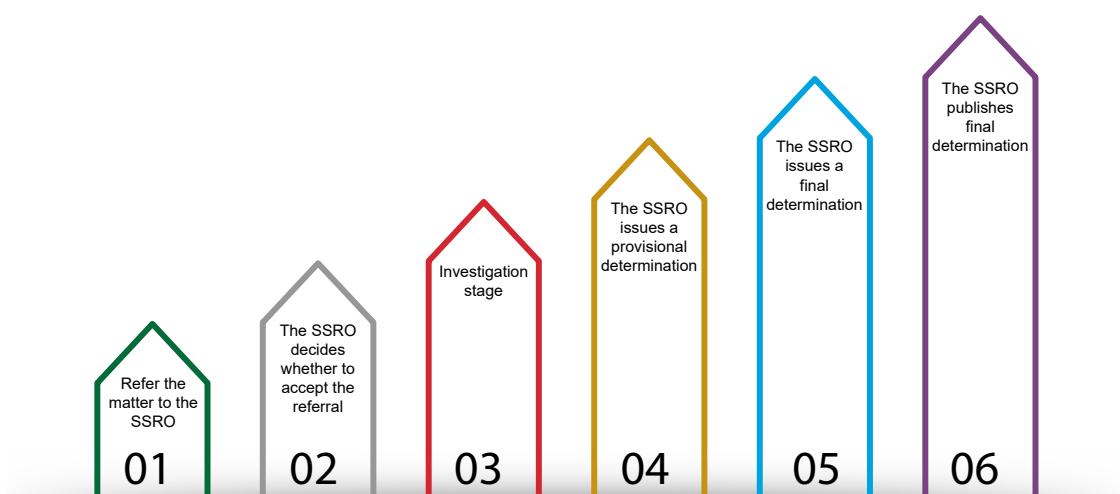
# Objective 1:

Be a fair and transparent adjudicator between the MOD and industry



The SSRO provides opinions and legally binding determinations in response to valid referrals from the MOD, contractors and sub-contractors. As an expert on single source procurement, the SSRO expects to be the first port of call for parties unsure whether a contract is being negotiated or managed in accordance with the principles of the Act. Should parties seek clarification on an issue or be unable to agree, either before or after a contract has been entered into, they can make a referral for an opinion or determination to the SSRO.

We are confident that referrals to the SSRO continue to provide an authoritative interpretation on price and costs, in addition to aiding understanding, application and compliance with the legislation, for both contractors and the MOD.





## SSRO determination, May 2016

In December 2015, the SSRO was referred a request for a determination on two matters by Rolls-Royce regarding its contract with the MOD for the availability of Adour engines, which power Hawk jet aircraft. We acknowledged the request within two working days, and formally accepted the referral within 20 working days. The contract was awarded on the condition that the SSRO's verdict was sought on two issues: the extent to which sales and marketing costs could be included and whether the level of cost adjustment for risk was appropriate.

On the first of the issues, the SSRO determined that Rolls-Royce had not produced the necessary evidence to demonstrate a clear beneficial link between forecast sales and marketing costs being claimed and the contract in question. It is for the contractor to demonstrate that sales and marketing activity would convert to actual sales and that these would benefit the cost base of the contract.

On the second issue, the SSRO determined that the level of programme risk in the contract was insufficient to attract a positive adjustment to the baseline profit rate. The 12.5 per cent adjustment in the contract should therefore be removed and not increased to 25 per cent as proposed by Rolls-Royce.

Following a rigorous process that took into consideration the information provided by Rolls-Royce and the MOD to the SSRO for the purposes of the referral, including data received via written evidence from both the contractor and the MOD, face to face meetings and a site visit, the SSRO arrived at a formal determination that removed £1.27 million from the contract.

## SSRO opinion, October 2016

The SSRO was jointly referred a request by the MOD and a contractor for an opinion in respect of a proposed QDC. The referral sought the SSRO's opinion on whether work undertaken at risk, ahead of the agreement of the contract through negotiation, may in principle represent Allowable Costs under the contract once it is in place.

We found that costs incurred at risk prior to entering into the contract may be Allowable once the contract is in place. Our opinion was that the conclusion reached was subject to the pre-contract at risk costs meeting the requirements of the regulatory framework before they are included in the price of the proposed QDC. The SSRO's opinion that pre-contract costs at risk may be Allowable is therefore subject to whether such costs are considered by the MOD and the contractor (or by the SSRO by way of determination) on or after entering into the contract, as meeting the AAR test, having regard to the SSRO's Single Source Cost Standards.

Both parties welcomed the findings of the SSRO's opinion.

...In 2016/17,  
we issued two  
opinions and one  
determination

## SSRO opinion, March 2017

The SSRO received a joint request from the MOD and a contractor for an opinion in January 2017 regarding a contract that was awarded before the regime established by the Act and the Regulations came into force and related future contracts that are proposed to be QDCs or QSCs. The final anonymised version was published in March 2017.

The parties proposed to amend the pre-regime contract, but confirmed to the SSRO during the process that the amended contract would not be a QDC. We considered the extent to which the requirements of the Act and the Regulations would apply to payments made under the pre-regime contract given an identified relationship between those payments and the proposed QDCs or QSCs. The SSRO's opinion was that the contractor should not be required to include payments made under the amended pre-regime contract in contract reports submitted under Part 5 of the Regulations in respect of the associated future contracts, but may be required to submit reports under Part 6 of the Regulations in which such payments would be included.

## Public Interest Disclosures

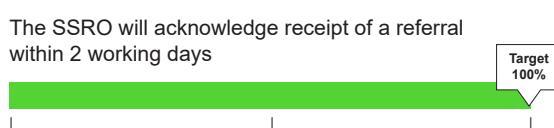
On 1 February 2016, the SSRO became a 'prescribed person' able to hear from whistleblowers under the Employment Rights Act 1996. The SSRO can consider and act on 'qualifying disclosures' related to single source defence procurement. A qualifying disclosure is a report of malpractice or wrongdoing, which could include a criminal offence, failure to comply with legal obligations, health and safety breaches, corruption or deliberately concealing information.

If the concern raised meets the requirements of the Employment Rights Act and the matter falls within the SSRO's remit, then we will review the issue and make recommendations in line with the execution of our statutory functions. The SSRO's action could include highlighting the issue to the MOD; publishing anonymous case studies and lessons learned; and using the information in our undertaking our statutory functions.

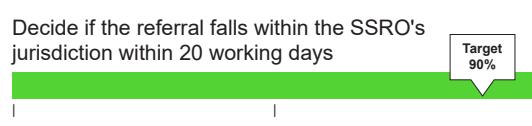
The SSRO received one qualifying disclosure in 2016/17.

## Key Performance Indicators

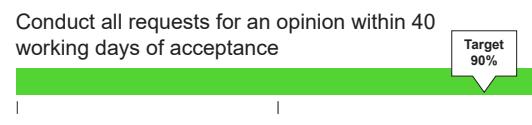
The KPIs in place to measure performance against this objective in 2016/17 are set out below.



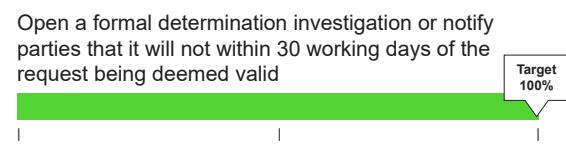
Met on two opinions and one determination



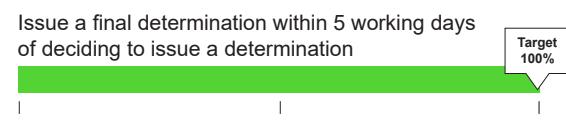
Met on both opinions



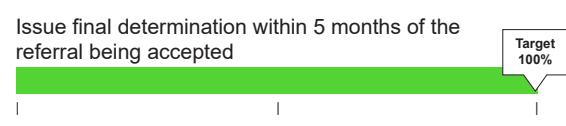
Met on both opinions



Met on determination



Met on determination



Met on determination



## Objective 2:

### Issue authoritative and impartial rates and guidance



#### Baseline profit and capital servicing rates methodology

The SSRO is required annually to review the baseline profit rate and capital servicing rates for QDCs and QSCs, and recommend the rates to the Secretary of State by 31 January.

The SSRO's recommended baseline profit rate for 2017/18 was calculated using a methodology that was first published in January 2016. The methodology is more appropriate than that previously used, and the rate more representative of the profits achieved in other comparable industries and by defence companies internationally.

In light of the responses to the consultation we held in the summer of 2016, the methodology for the 2017/18 contract profit rate increased the level of transparency for stakeholders about the approach we take. This includes additional transparency on how we identify the comparable companies, how this data is analysed, and includes additional information to aid those who may wish to replicate the approach taken.

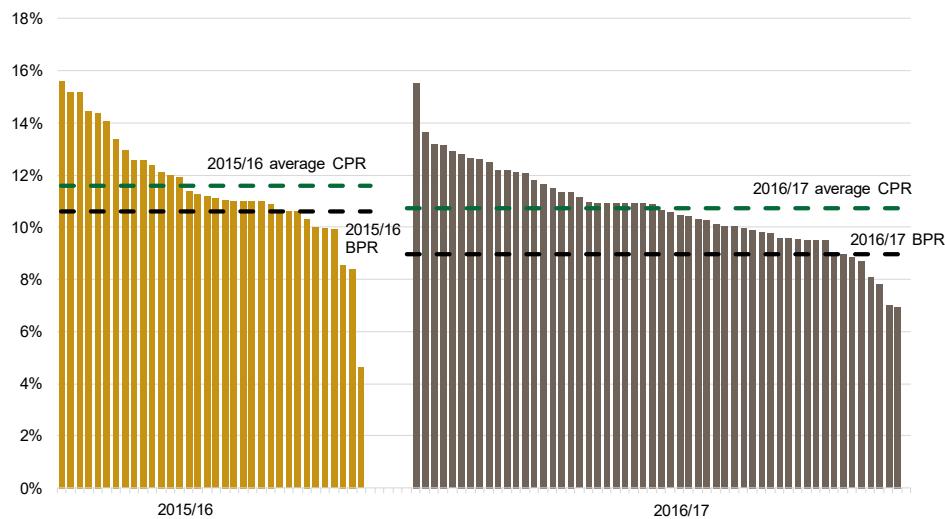
On 15 March 2017, the Secretary of State announced that he accepted the SSRO's recommendation of a baseline profit rate for single source defence contracts in 2017/18. The rate set by the Secretary of State for 2017/18 is 7.46 per cent.

The baseline profit rate is the first of six steps specified in the Act that are used to determine the overall contract profit rate, including risk, performance incentives and capital servicing rates.

SSRO analysis published this year shows that on average, QDCs/QSCs reported a contract profit rate of 11.5 per cent for the 34 QDCs/QSCs entered into between April 2015 and March 2016, a period when the applicable baseline profit rate was 10.60 per cent. As of September 2016, the average profit rate for 2016/17 was 11.0 per cent, compared to the applicable baseline profit rate of 8.95 per cent. The Figure below shows the range of contract profit rates reported in these QDCs/QSCs.



## Contract profit rates reported in individual QDCs/QSCs



The Act enables the SSRO to issue guidance for use by the MOD, contractors and subcontractors. Taken together, our guidance forms a single point of reference for all stakeholders to establish whether their actions comply with the Act and Regulations, and there is a legal requirement to have regard to guidance issued by SSRO.

### Contract profit rate guidance

Section 18 of the Act enables the SSRO to issue guidance in relation to the baseline profit rate and adjustments used to determine the contract profit rate. The guidance covers the six steps set out in Section 17(2) of the Act.



The SSRO published updated statutory guidance on the adjustments to make to the baseline profit rate when determining the contract profit rate for all qualifying defence contracts and qualifying sub-contracts. It is a legal requirement to have regard to this guidance, which supersedes all previous versions.



The guidance maintains the principles set out in previous versions of the guidance. To aid users, worked examples have been revised and the guidance now includes the rates that apply for 2017/18.

*"I am today announcing that I have set the baseline profit rate for single source defence contracts at 7.46%, in line with the rate recommended by the Single Source Regulations Office (SSRO). I have also accepted the methodology used by the SSRO to calculate this figure... Taxpayers can be confident that we are getting value for money as our defence budget rises by 0.5% above inflation each year of this Parliament and we deliver our £178 billion equipment programme. The defence sector is important for our prosperity, supporting highly skilled jobs, and this rate provides a fair return comparable with that in other international markets."*

[Written statement by Secretary of State for Defence, 15 March 2017](#)

## Single Source Cost Standards

The SSRO issues guidance on the principles that contractors and the MOD must have regard to when determining whether costs are 'Allowable' under QDCs and QSCs. These are set out in the SSRO's Single Source Cost Standards: Statutory Guidance on Allowable Costs, which includes a range of examples and checklists to help users assess if costs meet the criteria specified in the Act. The Act states that Allowable Costs must be 'appropriate, attributable and reasonable in the circumstances'.

In light of the SSRO's experience of the new regime, and feedback received through meetings with industry and our Helpdesk, the SSRO issued an updated version of the guidance for consultation in April 2016. Feedback from the MOD and industry was taken into account in the final version of the guidance published in July 2016.

Our guidance:

- provides assurance for both the MOD and the taxpayer that value for money is sought in qualifying defence contracts; and
- gives certainty to defence contractors that the costs they expect to incur are Allowable, and therefore chargeable to the MOD.



The Act provides for a statutory obligation on qualifying defence contractors and qualifying sub-contractors to provide a range of reports from the time a contract is entered into through to the date it is completed. The SSRO publishes report templates and user guides to provide parties with a simple and standard means of reporting. Updated user guides were published throughout the year and a new single combined user guide was published on 15 March 2017 alongside the DefCARS 2 system.

## Technical support

The SSRO provides a Helpdesk, which is a useful resource for external parties seeking clarification, advice or further information on all issues related to the work of the SSRO and its statutory functions. In 2016/17 the SSRO received 253 (as of 23 February 2017) enquiries, compared to 120 in 2015/16, and responded to all within our 10 working day timeframe of receiving the question.

In addition, throughout 2016/17, the SSRO published a monthly 'SSRO Answers' document, which consolidates the queries received by the SSRO and is intended to supplement our statutory guidance by providing informal clarification on questions asked by stakeholders about aspects of the Framework. This was a frequently-used resource by stakeholders with nearly 4,000 page views as of 31 March 2017.

Recommend to the SoS adjustments to the baseline profit rate, SSRO funding adjustment, capital servicing rate for fixed capital and capital servicing rate for working capital by 31 January



Letter sent on 30 January 2017

100%

Provide a consultation period of at least six weeks for draft guidance



We provided consultation periods of longer than six weeks for all three consultations on guidance commencing in 2016/17

100%

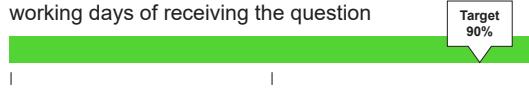
Publish final versions of statutory guidance and publish responses to consultations within 30 working days of consultations closing



We published responses within the time limit in 2 out of 3 consultations that closed in 2016/17. We did not publish our response to the consultation on the compliance and review methodology within 30 working days due to late submissions

66%

Provide substantive responses to questions raised by stakeholders on the content of our guidance within 10 working days of receiving the question



Met for 100 per cent of the 140 questions to date

100%

## Objective 3:

Analyse the data provided to us to share best practice and assess compliance



The Act places a statutory obligation on qualifying defence contractors and qualifying sub-contractors to provide specific information from the time a contract is entered into through to the date it is completed. In 2016/17, the SSRO procured the next phase of its Defence Contracts Analysis and Reporting System.

### DefCARS 2

DefCARS was created to enable defence contractors to submit reports and returns in order to comply with the requirements of the Act. It enables such information to be provided in a secure environment in accordance with the Regulations. The SSRO can then carry out its statutory and regulatory functions of validation, analysis and compliance with the information, in order to inform how the MOD can become a better buyer.

Work towards an improved version of the system, DefCARS 2, has been one of the SSRO's top priorities in 2016/17. The new DefCARS website launched on-schedule in March 2017.

Key improvements in the system include moving from excel based-templates to online web-forms, increasing auto-population and reducing duplicated fields in reports. We have produced a single comprehensive user guide, which is built into report web-forms via interactive guidance information prompts.

The security of data in the new system was one of the SSRO's main priorities. DefCARS 2 is hosted on a platform annually accredited for OFFICIAL-SENSITIVE data by the Cabinet Office and the system has also received security accreditation from the MOD. The SSRO was advised by Hex Security, a National Cyber Security Centre certified supplier, during development.

All data submitted into the previous version of the system, DefCARS 1, has been securely migrated to DefCARS 2, and is available for contractors to view. Data migration was subject to robust data quality checks by the SSRO and Synectics.

The system has been designed to facilitate future regulatory changes to the Single Source Procurement Regime, and will allow the introduction of better trend analysis and reports to inform contract negotiations involving the MOD and contractors. The SSRO will also regularly review the functionality of the system, and where necessary, implement upgrades and improvements through post-launch system updates.

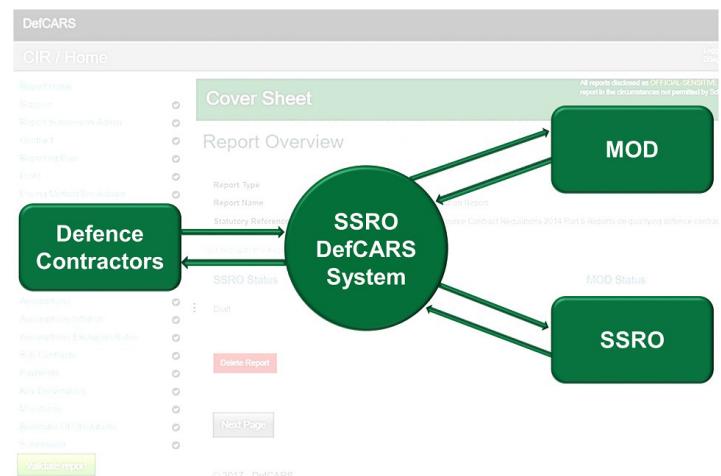
As part of its functions the SSRO analyses the reports submitted by industry into the DefCARS database, using a range of evidence and generating comparative management information and defence benchmarks and parametrics. This data can be used by the MOD to work with industry to negotiate and manage contracts in a manner that is aligned with the aims and

principles of the Act. In the course of the year, the SSRO did not receive any requests to conduct comparative analysis under the KPIs of “producing supplier portfolio analysis” or of “compiling defence benchmarks and parametrics”.

The SSRO can receive requests to provide independent insights for the Secretary of State for Defence, funded under Section 37 of the Act. We received one such request in 2015/16, with the Secretary of State commissioning the SSRO to carry out research into current and future wage inflation in single source contracts.

Such work is also separate to any potential requests from industry to perform ad hoc analysis on its behalf (where this does not compromise confidentiality commitments to other suppliers), as referred to in the Framework Document between the SSRO and MOD. No such requests were received in 2016/17.

The SSRO’s value for money studies programme assists in delivering its value for money requirement. Our study on current and future wage inflation in single source contracts was the first to be completed under the programme. The aim of the study was to provide evidence on changes to wage inflation and pay policies to inform how such information should be captured and assessed in future contracts. The report examined wage inflation in the context of the defence industry, and in comparison to similar occupations and industries and the wider UK economy, and how this has changed over time. We submitted the study to the Secretary of State in July 2016.



## Section 36(2) requirements

The SSRO continues to support the MOD and individual contractors to enable them to understand what they need to do to comply with the Act and Regulations.

### Compliance and review methodology

Under the Defence Reform Act 2014, the SSRO is obliged to keep the regulatory framework, and the extent to which organisations subject to reporting requirements are complying with them, under review. The SSRO published its compliance and review methodology in January 2017.

The compliance and review methodology was updated to reflect our experience to date and the latest regulatory best practice, and took into account feedback from responses received from industry, government and defence industry consultants during the six-week consultation that ran from 27 September to 8 November 2016. The input from stakeholders provided us with constructive feedback on the principles behind the methodology.

The final compliance methodology sets out an approach that:

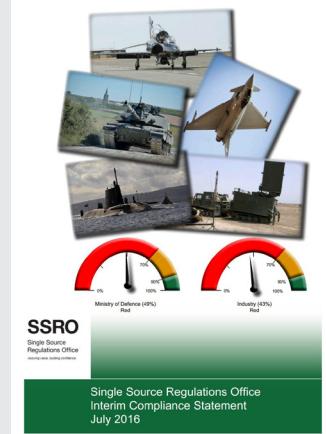
- makes the compliance methodology more closely aligned with best practice models of regulation;
- clarifies the distinction between the work / roles of the SSRO and the Cost Assurance and Analysis Service (CAAS);
- clarifies the legislative roles and responsibilities of the SSRO, the MOD and industry;
- improves collaboration and understanding between the SSRO, the MOD and industry, whilst still maintaining the SSRO's independence;
- reduces the overall 'compliance burden' on industry and the MOD; and
- focuses on the actions taken by industry and the MOD, as the intermediary assurance authority, as a result of issues that are identified by the SSRO.



Compliance and review methodology  
January 2017

## Interim compliance statement 2016

The Framework Document between the SSRO and MOD states that the SSRO should “publish a report on an annual basis that summarises compliance by the MOD and single suppliers to the provisions of the [Act] and [Regulations]. This report will be publicly available”. The annual report on the effectiveness of the regime is intended to be an effective tool to monitor and encourage compliance with the Act and the Regulations, as well as helping to assess how the framework is functioning and identifying areas of good practice and scope for further improvement.



The SSRO reported in its Interim Compliance Statement, published in July 2016, that over £61 million of costs in QDCs were under review on the first 18 QDCs. The statement covered the period 1 April 2015 and 31 March 2016.

The statement provided an update on compliance with the Act and Regulations since the first annual Compliance Report was published in January 2016. It also considered whether the pricing controls of the regime were being correctly applied.

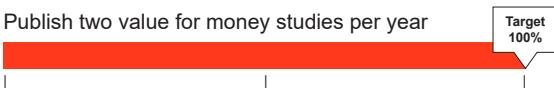
We will publish our next full annual report on the effectiveness of the regime in June 2017.

The SSRO is required to keep a record of any compliance or penalty notices issued by the MOD and act as the appeals body for suppliers seeking to dispute these notices. In 2016/17, no such notices were issued.

The SSRO records QDC and QSC information supplied to us by the MOD in our contract register, as required by Section 36(1) of the Act. Data recorded in the register includes contract pricing type, contract duration, and contract values for each current QDC and QSC. In 2016/17, we were notified of 50 QDCs and 10 QSCs, and all were added to the register within two working days of notification. As of 31 March 2017, there were 83 QDCs and 14 QSCs in total.



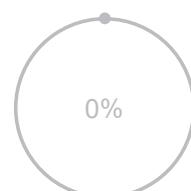
We have logged all contracts in the contract register within 2 working days



We undertook and completed a study on Wage Inflation, but we did not receive approval by the MOD to publish the findings. Work is underway on a VFM study on risk in single source procurement.

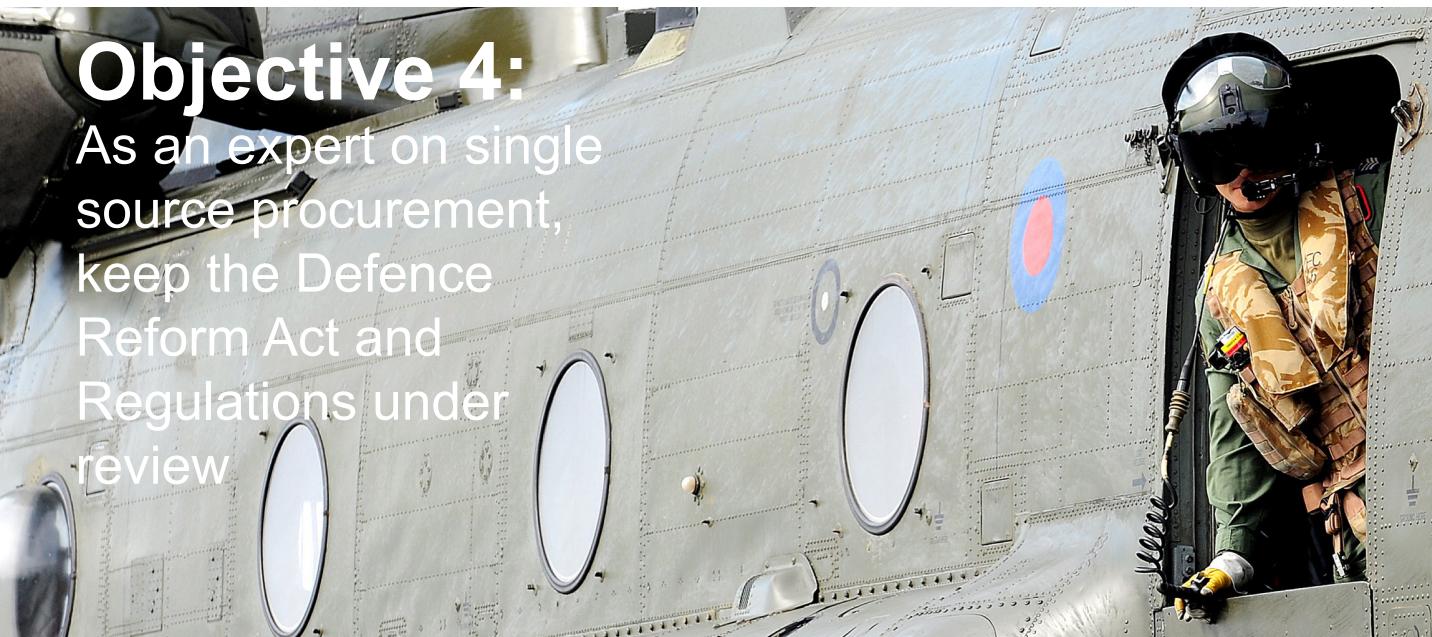


The SSRO Board agreed in December 2016 that this report (renamed the 'Annual report on the single source regime') will now be published in June 2017 to align with the financial year. An Interim Compliance Statement was published in July 2016.



# Objective 4:

## As an expert on single source procurement, keep the Defence Reform Act and Regulations under review



### Review of the Legislation

Throughout the year, we have developed a set of recommendations for altering the existing framework, based on our experience of the operation of the regime over the past three years and input from our stakeholders. Our broad programme of engagement has allowed us to develop our understanding of how the legislation is being applied and to shape that application in appropriate ways.

We published two Calls for Input as part of our review of the regime. The first, on the themes of coverage, pricing, the SSRO funding adjustment, SSRO functions and referrals and enforcement, ran from 23 May to 15 July 2016. The second, on the theme of transparency, ran from 12 September to 4 November 2016. We held a working group discussion with stakeholders as part of the Call for Input, and a series of meetings with both the MOD and industry representatives.

We took account of the feedback received and developed a set of proposed recommendations for change. In January 2017, we launched a consultation on our proposed recommendations, which seek to improve the regulation of single source defence contracts by:

- enhancing the transparency of the spending of public money;
- ensuring a level playing field for all of industry;
- achieving the appropriate coverage of defence contracts; and
- making the regime stick.



We consulted on proposed recommendations on three key changes, which we think are needed to make the regime more effective and to achieve its original aims. These are:

- Ensuring single source spending is fully covered by the legislation. For example, currently QDCs have a threshold of £5 million whereas sub-contracts are £25 million. We consulted on whether the threshold should be reduced to £10 million for sub-contracts to bring more under scrutiny.
- Creating a more transparent and effective regulatory regime. The consultation proposed that more relevant information is made available to the SSRO and the MOD to carry out their functions.
- Providing effective enforcement of the Regulations. We proposed that responsibility for issuing compliance and penalty notices is transferred to the SSRO in respect of reporting and QSC assessments.

The consultation called for views and further evidence in areas where other organisations have suggested changes and where there are issues that may justify making further recommendations. The consultation closed on 24 March 2017 and responses were taken into account before the SSRO made its recommendations to the Secretary of State in June 2017.



## Perspectives on non-competitive defence spending

In September 2016 we published a paper that reported views of academics, defence experts, accountants and former members of the military on the aspects of single source procurement. They provided real insight into how single source can be a viable alternative form of procurement to competition. International perspectives from Germany and Canada were also provided.

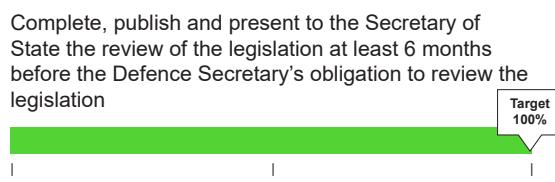
The paper drew out six key themes from across the contributions. Overall, we concluded that:

- 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 needs to be more transparent. It is important that the public is able to understand when contracting with a single supplier is justified and why competition was not possible.

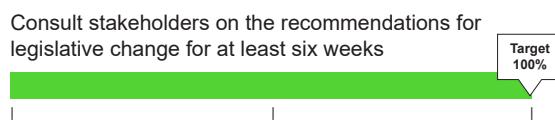


A joint SSRO/Royal United Services Institute (RUSI) event to discuss the issues raised in this paper was held on 16 November 2016. This was the beginning of a discussion about single source procurement which includes, but goes beyond, the MOD and industry. The SSRO intends to continue these discussions in 2017.

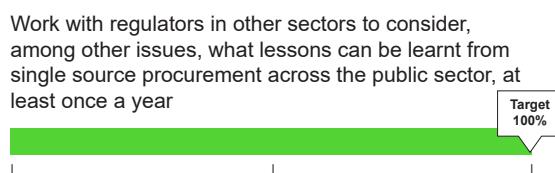
The November event was held at RUSI's offices in London. Speakers included Lord Currie, Professor Andrew Dorman, Cate Pye and the SSRO Chief Executive Marcine Waterman, and the event was expertly chaired by Professor John Louth. The paper itself and the event inspired some interesting debates around single source procurement and its use – both in the UK and in other countries. We would once again like to thank the contributors to the paper and all those who attended the SSRO-RUSI event in November. We are planning to hold another discussion event later in 2017.



Remains on track for completion before June 2017



8 week consultation held between 30 January and 24 March



The discussion paper published on contributed to this KPI





## Objective 5:

Be a good employer  
and value our people

The success of the SSRO depends on the qualities of its Board and its staff. To operate effectively, the SSRO has assembled a team of high calibre individuals, with relevant skills and experience across a range of specialisms.

The SSRO Board has identified the need for additional non-executive Board member capacity. Two new members, David Johnston and Terence Jagger, joined the Board in 2016/17 as replacements for previous Board members. A recruitment process for an additional two members commenced in 2016/17.

At the end of 2016/17 the SSRO had 33 staff in post, and will recruit additional staff into new vacancies in 2017/18. Employees are the key to any organisation's success and the SSRO values its staff and supports individual growth and development. The SSRO has implemented a performance management system that includes:

- annual individual objective setting linked to corporate objectives;
- identification of training and development needs;
- regular assessments of employees' performance; and
- a commitment to providing employees with a minimum three days training per year.

Our back-office functions continue to operate with a combination of outsourced provision and sufficient in-house capacity to lead, manage and support the delivery of our statutory functions. Outsourced support arrangements draw on government framework contracts, including GCloud, wherever possible ensuring the benefits of public sector wide procurement arrangements are realised.

Recognising the continuing need to keep our resource requirements under review to ensure our functions can be delivered, we have established a legal support framework and a framework for subject matter experts in cost engineering, risk management and economics, and defence manufacturing. Other framework contracts will be established as necessary to ensure resilience and access to necessary expert support.

Staff retention higher than 90 per cent per annum



There were three staff resignations in 2016/17



Average number of days spent per annum per person on formal training



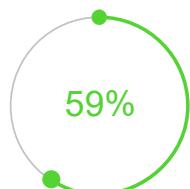
The SSRO met this target with staff spending an average of 3 days this year on formal training



The level of employee engagement with the organisation; its work and its values



In February 2017, the SSRO undertook its second staff survey, which was based on the version used across the civil service to provide a comparable benchmark. The staff survey was used to measure our KPI target of "greater than 50 per cent engagement with staff". The overall mean engagement score was 59 per cent, exceeding our KPI target.



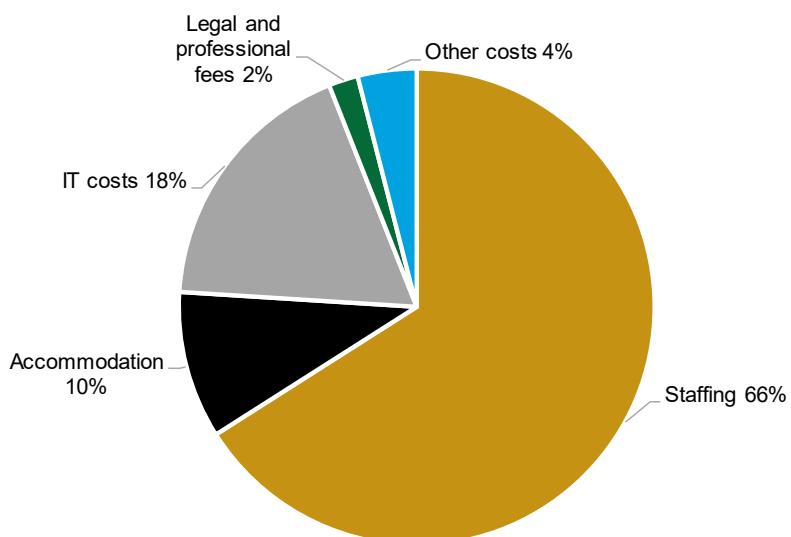
# Objective 6:

Be financially responsible and target our resources where they will have greatest public benefit



The SSRO's first statutory aim is to ensure that good value for money is obtained for the taxpayer in government expenditure on QDCs. This focus on taxpayers' money guides how we run the SSRO. The SSRO is funded by grant-in-aid from the MOD. From next financial year, half of this funding will be recovered by the MOD from industry through an adjustment to prices paid on contracts within the regime. Through this mechanism, industry will jointly fund the SSRO, with the SSRO receiving the industry funding through grant-in-aid from the MOD.

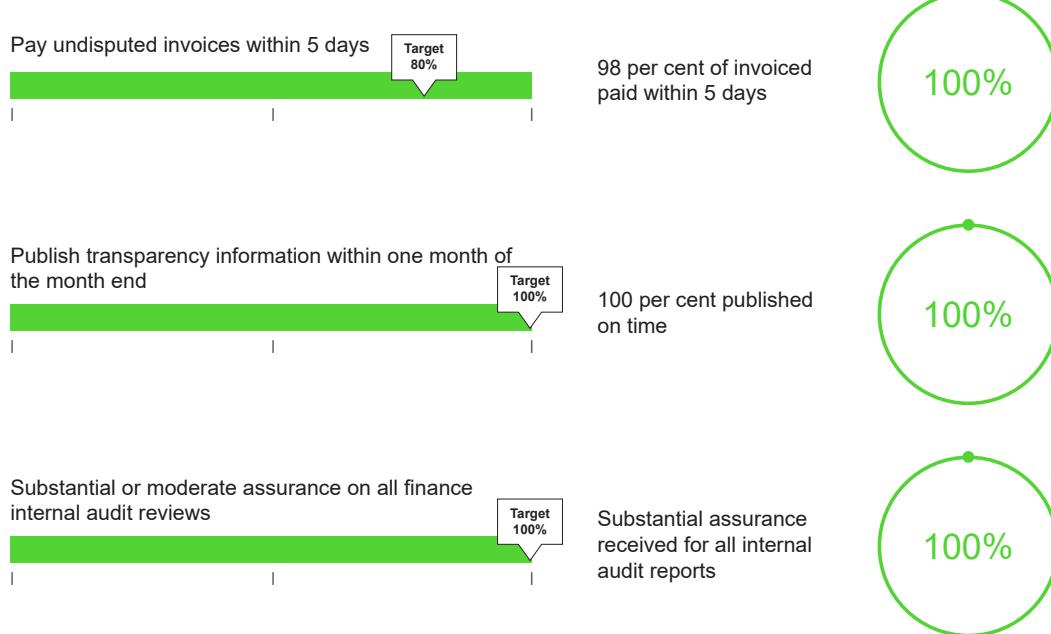
It is important that we are run efficiently and that all expenditure is justified and results in public benefit.



Our corporate resources functions are set up to efficiently support the organisation as it pursues its strategic objectives. In line with the government's and the SSRO's commitment to transparency, the SSRO continued to publish its transparency reporting within the specified timescales during 2016/17.

The SSRO's average rate for paying undisputed invoices during the year is above target (80 per cent) at 98 per cent (2015/16: 96 per cent).

The KPIs in place to measure performance against this objective during 2016/17 are set out in the table below.



## Financial and other performance during the year

This section summarises the financial performance of the SSRO during the 2016/17 year. This information provides an explanation of the grant funding received and how this was spent. When read in conjunction with the SSRO's Corporate Plan, the section sets out how financial performance will develop over the next three years. In providing this information in the publicly available Annual Report and Accounts, we aim to meet our goal of being transparent.

During 2016/17 the SSRO was provided with Grant in Aid funding of £5,746,000. The SSRO's expenditure mainly relates to recurring commitments with the majority of its spend on staff and staff related costs. During 2016/17 the SSRO also incurred one off costs as it procured, developed and went live with the next phase of the Defence Contracts Analysis and Reporting System.

The SSRO continues to seek value for money in its day to day operations and back office functions to support the delivery of its statutory obligations. The SSRO uses an outsourced model for many support services including working in collaboration with OFGEM through which our financial system is provided. This is coupled with several other framework contracts which allow access to additional expert support when needed. These arrangements allow the SSRO to achieve a measure of resource resilience as well as ensuring access to necessary advice when it is required. The SSRO enters into contractual arrangements with suppliers of goods or services procured through government framework contracts where possible.

The outturn expenditure (including capital expenditure) of £5,648,000 represents utilisation of over 98 per cent of the total available Grant In Aid funding provided by the MOD. The majority of the unutilised funds related to unfilled vacancies that arose at the end of quarter four and one off projects concluded at year end which were managed under budget. Apart from staff costs, other significant areas of expenditure include accommodation and IT costs. This includes the planned costs for the next phase of the Defence Contracts Analysis and Reporting System and IT infrastructure development project.

Separate funding arrangements exist for expenditure on referrals reflecting the uncertain nature of when these may arise and the costs that may be incurred. The MOD provides additional Grant In Aid for all referral related expenditure as it is required based on the submission of details of actual costs incurred. During the 2016/17 year, expenditure of £60,000 (2015/16: £150,000) was incurred and reimbursed.

The SSRO also carried out a study on wage inflation with additional costs incurred from completing this work also fully reimbursed by the MOD. Expenditure of £3,000 was incurred in 2016/17 (2015/16: nil).

Looking ahead, the financial priorities over the next year will be the continued delivery of value for money in the provision of our statutory functions.

## Creditor payments, target and performance

The SSRO's aim during 2016/17 was to pay suppliers promptly in line with our standard terms and conditions, which are to pay all undisputed invoices within 30 days of receipt of invoice. This target was met with 100 per cent of invoices paid within the 30 day target (2015/16: 100 per cent).

HM Treasury guidance is that government departments and other public sector bodies should aim to pay 80 per cent of undisputed invoices within 5 days. The target was also met with 98 per cent of undisputed invoices paid within the 5 day target (2015/16: 96 per cent).

### Staffing

The SSRO's largest cost relates to its employees, but this is also the SSRO's biggest asset. The SSRO is committed to investing in continued training and development for its staff based on our organisational values of independence, transparency and professionalism. The SSRO's Corporate Plan includes a commitment to at least 3 days of training per staff member each year. This target was met with 97 training days having been provided during 2016/17 (2015/16: 92 days).

### Pension liabilities

SSRO employees are eligible to join the Principal Civil Service Pension Scheme (PCSPS). The Remuneration Report contains further information on the pension liabilities

### Personal data related incidents

There were no personal data incidents reported to the Information Commissioner's Office (ICO) during the 2016/17 year.

### Explanation of adoption of going concern basis

In preparing these resource accounts, the SSRO has adopted the Government Financial Reporting Manual issued by HM Treasury, and in particular has:

- observed the relevant accounting and disclosure requirements, and applied suitable accounting policies on a consistent basis;
- made judgements and estimates on a reasonable basis;
- stated whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed and disclosed and explained any material departures in the resource accounts; and
- prepared the resource accounts on a going concern basis, as set out in Note 1.3 of the SSRO's financial statements.

The SSRO Board is content that the going concern basis still applies as both expenditure and the cash flow are carefully monitored to reduce these risks.

The SSRO has ongoing funding from the MOD.

On 5 June 2017 Neil Swift was appointed as Interim Accounting Officer.

### Neil Swift

Interim Accounting Officer

10 July 2017

# Accountability report

# Corporate governance report

## Directors report

### Our Board



#### George Jenkins OBE – Chairman

George Jenkins OBE was appointed as Chairman of the SSRO on 3 January 2017. He is currently the chairman of the Professional Standards Authority which has oversight of nine regulators and 24 Accredited Registers who regulate over 1.25 million health and care professionals such as doctors, nurses and paramedics.

Mr Jenkins' career has been in global logistics and manufacturing. In June 2016 he completed his term as the Chairman of the Port of Dover. He has been chairman of the Cystic Fibrosis Trust for four years and previously was Chair of Governance and Audit of NHS Blood and Transplant and Chair of South London Healthcare NHS Trust. He was recognised for his work in healthcare with the appointment to OBE in 2010.

#### David Johnston

David was appointed as a non-executive member in June 2016. He is a member of the Audit and Referrals Committees.

He is currently a Director of the Engage Enrich Excel Academies Trust. He has a deep knowledge of international aerospace and defence sectors which complements a broad experience of industrial services around the world. David has a track record of leadership roles in strategy, M&A, finance, change management and procurement at FTSE 250 executive team level.

David is a Fellow of the Chartered Institute of Management Accountants.

#### Marta Phillips OBE

Marta was appointed as a non-executive member in September 2014. She chairs the SSRO's Audit Committee and is a member of the Regulatory Review Committee. She also served for a short time as a member of the Referrals Committee. She holds a number of other non-executive roles, mainly in the government and education sectors. She has also been a member of the Council of the Institute of Chartered Accountants of Scotland. She was awarded a CBE in 2006.

#### Terence Jagger OBE

Terence was appointed as a non-executive member in January 2017. He is the Chair of the Referrals Committee and a member of the Audit Committee and was previously an independent member of the referrals panel.

He was Chief Executive of Crown Agents, the international development company, from 2011-2015 following a 16-year career with the Ministry of Defence, where he was Command Secretary RAF Air Command, Director Financial Management, Director managing the privatisation of the Defence Evaluation and Research Agency at QinetiQ, and political adviser to the NATO commander in Afghanistan. He is currently Chair of Bath Spa University, a non-executive director at the London Pensions Fund Authority and the Marine Management Organisation, and a trustee of Tree Aid. He was awarded a CBE in 2003.



### Clive Tucker – Interim Chair until October 2016

Clive was appointed as a non-executive member of the SSRO in September 2014, and interim Chair in February 2016. He was the Chair of the SSRO's Referrals Committee and a member of the Regulatory Review Committee. Clive is currently a non-executive national committee member and Audit Committee Chair at the Forestry Commission England, and a steering board member of the UK Space Agency and Chair of its Audit Committee. He is also a non-executive member of the UK and Ireland Regulatory Board of the Royal Institution of Chartered Surveyors.

Previous roles include solicitor and partner at Ashurst LLP, where he advised on major procurement projects and other commercial transactions.

Clive resigned from his post on 20 October 2016.



### Jane Attwood – non-executive Board member until 31 March 2017

Jane was appointed as a non-executive member in September 2014. She was the Chair of the SSRO's Regulatory Review Committee and a member of the Audit Committee. Jane is currently Head of Intelligence at the Financial Conduct Authority. She is a member of the Advisory Council at the Royal United Services Institute. Her previous roles include: Commercial and Development Director at JTIP – part of PGI group; Group Fraud Prevention Director at Lloyd's Banking Group; Deputy Director, Prevention and Alerts at SOCA; Vice President, Market Development at BAE Systems; and an earlier career in HM Diplomatic Service.

Jane resigned from her post on 31 March 2017.

## Our Team



### Marcine Waterman, Chief Executive

Marcine became the SSRO's full-time Chief Executive in April 2015, having been appointed part-time to the role in September 2014. While at the SSRO, Marcline has overseen the establishment of the organisation and the discharge of its statutory functions.

Marcine also led the Audit Commission as Controller of Audit, making sure it efficiently and effectively applied its statutory audit regime for local public bodies, and monitored and managed the performance of the private audit firms providing audit services. Marcline worked at the Audit Commission from 1993, and was involved in most of the Commission's key change programmes including data quality, fire modernisation verification, Best Value, and market testing. Marcline led the largest and most complex outsourcing procurement the Commission engaged in, and oversaw the successful closure of the organisation in March 2015. Prior to that, Marcline was a Consultant, at the Public Sector & Government Practice of Ernst and Young (USA), and a Confidential and Legislative Assistant at the White House, US Presidential Office.

### Ian McPherson OBE, Director of Compliance and investigations

Ian was appointed as Director of Compliance and Investigations in March 2016, having been seconded to the SSRO from accounting firm BDO as Defence Advisor in October 2014. Ian began his career in the British Army as a logistician, serving across the globe including seven operational tours of duty. He has commanded at both Squadron and Regimental level and undertook staff appointments in Brigade, Divisional, Corps HQ's and at the MOD as well as operational tours with both the US and French Army.

Ian is a guest lecturer in smart procurement at the Defence Academy and was awarded the BEM in 1981 and made an OBE in 1999. Previous roles include Vickers Defence Systems working on the Challenger II Main Battle Tank programme; Consultant for the Helm Corporation leading the work on the division of Sudan under the auspices of the World Bank and UN; Commercial Director at Tribal; and Director in the Public Sector Advisory team at BDO.

### Neil Swift, Director of Corporate Resources

Neil was appointed as the Director of Corporate Resources in April 2015 and is responsible for the provision of operational support services including human resources, finance, legal, procurement, IT and information management.

Neil started his career as a trainee engineer with British Aerospace before changing direction to train as an accountant with KPMG. After a move to the public sector Neil worked in several frontline operational finance roles across the public sector including as Deputy Director of Finance at a large NHS Trust in London. Neil joined the Audit Commission in 2003, initially as a Senior Manager and Health Policy Lead as which he worked on a range of national studies and publications before becoming Head of Technical Support for the Commission's Audit Practice in 2007. He was appointed Associate Controller Corporate Resources in 2009 and was responsible for the delivery of all support services during the transition to and eventual closure of the Commission.

### Matthew Rees, Director of Analysis and Reporting

Matthew was appointed Director of Analysis and Reporting in March 2016. Matthew began his career at KPMG audit, qualified as a Chartered Accountant and then specialised in business valuations. He moved to investment banking, where he worked for the technology, media and telecom teams of Merrill Lynch, Deutsche Bank and JPMorgan. Matthew is an independent non-executive director and the deputy chairman of Gemserv Limited. Gemserv provides consultancy, market design, governance and information security services to clients predominantly in the utility and environmental sectors.

In his public sector career Matthew advised the UK Competition Commission in relation to merger and market investigations, economic regulation cases, and divestiture remedies. He joined the National Audit Office in 2014 and established a new corporate finance team focusing on value for money reviews of privatisations, asset sales and infrastructure financing. Previous roles include Director of Corporate Finance, National Audit Office; Financial and Business Adviser, Competition Commission (UK); Executive Director, Investment Banking, JPMorgan Chase; Vice President, Investment Banking, Deutsche Bank; Vice President, Technology Investment Banking, Merrill Lynch; and Manager, Corporate Finance & Assistant Manager, Public Sector Audit, Infrastructure and Government, KPMG.

## Board appointment dates

	Start date	End date
<b>Non-Executive Directors</b>		
George Jenkins	03/01/17	02/01/20
Clive Tucker	29/09/14	20/10/16
Jane Attwood	29/09/14	31/03/17
Marta Phillips	29/09/14	28/09/17
David Johnston	01/06/16	31/05/19
Terence Jagger <sup>[1]</sup>	22/01/17	21/01/20
<b>Executive Directors</b>		
Marcine Waterman Chief Executive	01/04/15	-
Neil Swift <sup>[2]</sup> Director of Corporate Resources	20/04/15	-
Ian McPherson Director of Compliance and Investigations	01/03/16	-
Matthew Rees Director of Analysis and Reporting	14/03/16	-

[1] Terence Jagger was appointed as a Referral Panel Member on 8 June 2015, and subsequently appointed as a Non-Executive Director on 22 January 2017.

[2] Neil Swift was Director of Corporate Resources during the reporting year 2016/17. He was appointed as Chief Operating Officer on 1 May 2017 and Interim Accounting Officer on 5 June 2017.

## Board personnel declared interests

The following disclosures relate to the activities of the Chair and members during the currency of their appointments in the year. The disclosures arise where a Board member has been in a position of influence resulting from election to, receiving remuneration from, or appointment to any organisation:

- that is a central government body; and
- that falls under the SSRO's statutory functions or is a provider or receiver of significant services to or from the SSRO.

### Non-Executive Directors

George Jenkins - Chair

- None declared

Clive Tucker - Interim Chair (until October 2016)

- Non-executive steering board member and Audit Committee Chair at the UK Space Agency
- Non-executive member, Forestry Commission England

Marta Phillips

- Audit Committee Member, Crown Prosecution Service

Jane Attwood

- Head of Intelligence, Financial Conduct Authority
- Member of the Advisory Council at the Royal United Services Institute

David Johnston

- None declared

Terence Jagger

- Member of Advisory Committee On Business Appointments (ACOBA)
- Non-executive director of the Marine Management Organisation (MMO)

### Executive Directors

Marcine Waterman

- Member of the Finance Futures Panel, Welsh government
- Member of the CIPFA Governments Faculty Board

Neil Swift

- None declared

Ian McPherson

- None declared

Matthew Rees

- None declared

## Statement of responsibilities

### Board members' responsibilities

The SSRO's Corporate Governance Framework sets out that the Board is responsible for:

- the discharge of the SSRO's functions;
- providing strategic leadership, direction, support and guidance, and overseeing the development and implementation of strategies, plans and priorities of the SSRO;
- overseeing the development and review of the SSRO's aims and corporate objectives;
- allocating within the SSRO the budget that has been agreed by the Department, ensuring that the SSRO uses resources efficiently and achieves value for money;
- monitoring the SSRO's performance and work, and ensuring that it receives and reviews regular financial and performance information concerning the management of the SSRO;
- observing high standards of corporate governance at all times, including by using the independent Audit Committee to help the Board to address key financial and other risks;
- putting in place effective arrangements to provide assurance on risk management, governance and internal control;
- ensuring that the SSRO operates within its statutory remit and the limits of its statutory authority and any delegated authority agreed with the Department, and in accordance with any other conditions relating to the use of public funds;
- ensuring that the Department is kept informed of any changes that are likely to impact on the strategic direction of the SSRO; the attainability of its targets; and any concerns about the activities of the SSRO, and determine the steps needed to deal with such changes; and
- ensuring that, in reaching decisions, the Board takes into account legislation and guidance issued by the Department.

The Board regulates its own proceedings, and has approved Standing Orders for that purpose.

On behalf of the Board, the Audit Committee reviews and challenges the SSRO's internal control systems; assessment and management of risk; financial, accounting and tax policies, practices and processes; and arrangements for controlling and reporting expenditure.

The Board may choose to delegate to the Chief Executive specific matters that would otherwise be reserved to the Board. The matters that are delegated to the Chief Executive are set out in the SSRO's Corporate Governance Framework.

## Statement of Accounting Officer's responsibilities

Under Schedule 4 (paragraph 12) of the Defence Reform Act 2014, the Secretary of State has directed the Single Source Regulations Office to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Single Source Regulations Office and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The Accounting Officer of the Ministry of Defence designated the Chief Executive as Accounting Officer of the Single Source Regulations Office. The Chief Executive was the Accounting Officer during the reporting year 2016/17. On 5 June 2017 the Chief Operating Officer was appointed by the Ministry of Defence as Interim Accounting Officer for the Single Source Regulations Office and he is responsible for authorising the accounts. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Single Source Regulations Office's assets, are set out in Managing Public Money published by the HM Treasury.

The Interim Accounting Officer confirms that the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

### Our auditor's details

The financial statements are audited by the Comptroller and Auditor General. He has not provided any other service to the SSRO during the year. The audit fee is disclosed in note 4.

The Interim Accounting Officer confirms that:

- there is no relevant information of which the auditors are unaware
- he has taken all the steps he ought to ensure that he is aware of all relevant audit information; and
- he has taken all the steps he ought to ensure that the Comptroller and Auditor General is aware of all relevant audit information.

## Governance statement

Marcine Waterman was the Chief Executive and Accounting Officer during the year. Following the year end I was appointed as the SSRO's Interim Accounting Officer.

I have gained assurance of the SSRO's controls from my role as Director of Corporate Resources. In performing this role I attended all Executive Committee, Audit Committee and Board meetings during the reporting year. I have met with internal and external auditors throughout the year and reviewed their audit reports. My knowledge of the organisation provides me with assurance of the SSRO's internal controls and informs my approval of this statement.

## Scope of responsibility

As Accounting Officer, I am responsible for upholding sound internal controls that support the SSRO's policies and objectives. The internal controls safeguard the public funds and assets for which I am personally responsible under Managing Public Money.

## Background to events in 2016/17

During 2016/17, the SSRO has:

- issued a determination and two opinions on matters referred to it;
- recommended baseline profit rate and capital servicing rates to the Secretary of State before 31 January, publishing guidance on the contract profit rate;
- published updated guidance on Allowable Costs, the Single Source Cost Standards, and its compliance and review methodology;
- developed the DefCARS system for securely receiving and holding reporting information;
- developed proposed recommendations in its review of the legislation;
- observed all necessary governance policies and procedures, to enable the Board to make robust, evidence based decisions in line with best practice;
- published its Corporate Plan 2016-2019 and made progress towards all key performance indicators; and
- engaged with its key stakeholders in government and the defence industry (both in the UK and internationally) in order to share, and learn from, good practice.

Marcine Waterman was Chief Executive and Accounting Officer during 2016/17. Neil Swift was appointed as Interim Accounting Officer after year-end and takes responsibility for 2016/17.

The SSRO Board operated effectively and independently during the year using three sub-Committees to further the Board's strategic and oversight roles. The Committees are the: Audit Committee, Referrals Committee and Regulatory Review Committee. The SSRO also has an Executive Committee, reporting to me.

The Performance Report section of this document describe events in 2016/17 in more detail.

### The purpose of the governance statement

The governance statement, for which I as Accounting Officer take personal responsibility, is intended to provide a clear understanding of the SSRO's business and its control structure. It sets out the stewardship arrangements for the SSRO and supplements the accounts, together providing a record of how the SSRO has performed in its second full year of existence.

This statement also explains how the SSRO has complied with good governance principles and reviews the effectiveness of these arrangements.

### SSRO's structure and governance framework

The SSRO's governance framework and arrangements for internal control are designed to manage risk to an optimum level, rather than eliminate all risk of failure; to fulfil our statutory obligations, and the SSRO's own policies, aims and objectives. The governance documents and others referred to in this section are all available on the SSRO's website, together with the agendas and minutes of all Board meetings.

As an executive Non-Departmental Public Body, the SSRO operates under a Framework Document agreed between the SSRO and its sponsor, the MOD. As required by the Framework Document, the Board completed its second annual review of the Corporate Governance Framework in December 2016, drawing on external sources such as the legislative framework and good practice such as the report *Striking the Balance* by the Committee on Standards in Public Life.

The SSRO's Corporate Governance Framework is aligned with and supports the strategic aims of the SSRO as set out in the Framework Document. The document codifies the Board's commitment to strong corporate governance being central to the effective direction and control of the organisation, and delivery of its statutory role and strategic objectives. It sets out the organisation's arrangements and processes for governance including the roles of the Chairman, Board, Committees and Chief Executive; the powers exercised by the Board or delegated to the Chief Executive; and standing orders that establish the procedural framework within which the SSRO discharges its business.



The SSRO Board has approved a set of policies and procedures to ensure the robust governance of the SSRO. These include:

- A Code of Conduct for Board members and external panel members, providing for a public register of interests for Board members and external panel members. The Code of Conduct was reviewed and updated this year alongside the Corporate Governance Framework.
- A Complaints Policy, to ensure all staff and external stakeholders are aware of how they can raise a complaint about the SSRO.
- A Gifts and Hospitality policy, which provides for a register of gifts and hospitality that is published on the SSRO's website.
- A Whistleblowing Policy, which sets out the SSRO's process for handling concerns raised by internal staff, and in addition external employees following the SSRO becoming a 'prescribed person' under the Employment Rights Act 1996 on 1 February 2016.

We also have established robust risk control processes, which are considered regularly by the Executive Committee, Audit Committee and Board. Further information on our risk mitigation is set out below.

At no time has any part of the SSRO's system of internal control failed or been suspended.

The SSRO's governance arrangements are overseen by its Board. Responsibility for non-executive Board members' appointments rests with the Secretary of State. In February 2016 Clive Tucker, one of the SSRO's existing non-executive members, was appointed as interim Chairman and remained in this role until his resignation in October 2016.

As a result, no Chairman was in post between October 2016 and January 2017. There were also vacancies for non-executive Board members at this time, with only three non-executive members in post. The governance risks to the SSRO included whether Board meetings would be quorate (three non-executive Board members are required for a quorum), and whether the SSRO could hold a Board meeting and make decisions without a Chairman.

During this period the SSRO took steps to manage the impact of this risk by engaging on an ongoing basis with the MOD regarding their progress on filling vacancies and keeping them informed of planned actions. The SSRO also took steps to inform its external auditors, the NAO, of this risk and requested their observations on similar scenarios they may have encountered. Internal and external legal advice was sought which concluded on balance that the SSRO could continue to function without a Chairman albeit for a limited period. The MOD and Ministers were notified of this. The December 2016 Board meeting took place with one of the existing non-executive Board members chairing the meeting. Our internal auditors, GIAA, as part of their work on reviewing our governance arrangements concluded that the process and related risks were well managed.

A permanent Chairman, George Jenkins OBE, was appointed in January 2017, and a further non-executive Board member was appointed also in January 2017. The SSRO Board was, at year-end, comprised of five non-executive members (George Jenkins, Marta Phillips, Jane Attwood, David Johnston and Terence Jagger) and four executive members (Marcine Waterman, Neil Swift, Ian McPherson and Matthew Rees). At the end of the reporting period, the SSRO was in the process of recruiting additional non-executive members (who will be appointed by the Secretary of State for Defence) to the Board.

## The Board

The Corporate Governance Framework states that the Board is responsible for the following:

- the discharge of the SSRO's functions;
- providing strategic leadership, direction, support and guidance, and overseeing the development and implementation of strategies, plans and priorities for the SSRO;
- overseeing the development and review of the SSRO's aims and corporate objectives;
- allocating within the SSRO the budget that has been agreed by the Department, ensuring that the SSRO uses resources efficiently and achieves value for money;
- monitoring the SSRO's performance and work, and ensuring that it receives and reviews regular financial and performance information concerning the management of the SSRO; is informed in a timely manner about any concerns about the activities of the SSRO; and provides positive assurance to the MOD that appropriate action has been taken on such concerns;
- observing high standards of corporate governance at all times, including by using the independent Audit Committee to help the Board to address key financial and other risks;
- putting in place effective arrangements to provide assurance on risk management, governance and internal control;
- ensuring that the SSRO operates within its statutory remit and the limits of its statutory authority and any delegated authority agreed with the Department, and in accordance with any other conditions relating to the use of public funds;
- satisfying itself that plans are in place for orderly succession for appointments to the Board so as to maintain an appropriate balance of skills and expertise and ensure progressive refreshing of the Board;
- ensuring that the Department is kept informed of any changes that are likely to impact on the strategic direction of the SSRO; the attainability of its targets; any concerns about the activities of the SSRO; and determining the steps needed to deal with such changes; and
- ensuring that, in reaching decisions, the Board takes into account legislation and guidance issued by the Department.

The Corporate Governance Framework also describes individual responsibilities for the Chairman and for other Board members, distinguishing between non-executive members and executive members where necessary. The document sets out the Board's authority to appoint committees and determine their procedure, and the Board's role concerning the corporate and business plans, internal audit, the Annual Report and Accounts, external audit and value for money examinations.

During 2016/17 the Board carried out several actions, including considering and approving:

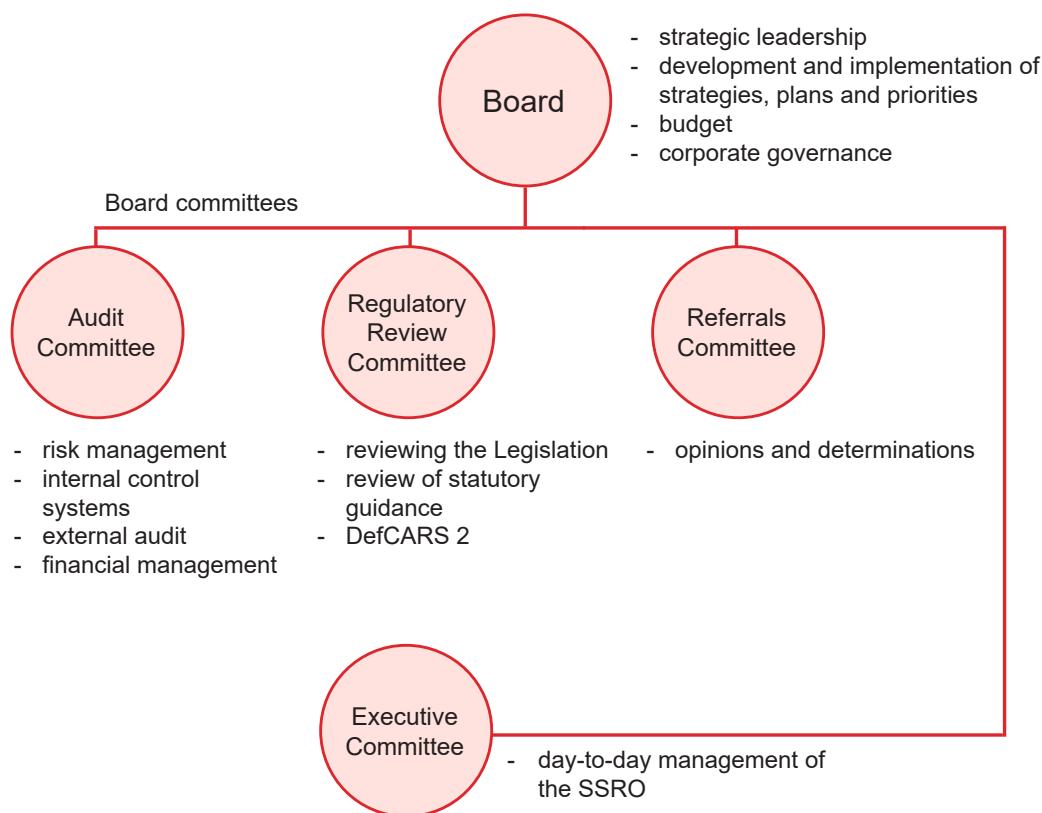
- all decisions relating to the SSRO's statutory functions;
- the Annual Report and Accounts 2016/17;
- the Corporate Plan 2016-19;
- the annual review of the Board's effectiveness;
- the annual review of the Corporate Governance Framework and Code of Conduct for Board members and external panel members (both of which are published on the SSRO website);
- regular financial and performance updates on how the organisation is delivering against its budget and key performance objectives;
- the annual budget for 2017/18; and
- the minutes of all Board and Committee meetings.

The Board also attended one meeting of the SSRO's Senior Stakeholder Forum, which is an opportunity for the SSRO to engage with senior representatives from the main prime defence contractors and the MOD.

In 2017, the SSRO carried out its second annual review of the Board's effectiveness as required by the SSRO's Corporate Governance Framework. The review was led by the SSRO Chairman, George Jenkins, who held individual meetings with each executive and non-executive member of the Board to assess the consideration of the operation of the Board as a whole, including any committees and advisory groups. The review also considered the recommendations in the Audit Committee's report to the Board on the Committee's own effectiveness, as well as provisions within the Corporate Governance Framework and Framework Document.

The Board discussed the annual review at its March 2017 meeting, and accepted all the report's recommendations. The report found the SSRO Board to be operating effectively and independently. Independent input will be sought for the annual review at least once every three years.

In 2016/17 the Board and its sub-committee structure was as follows:



In 2016/17, Board members attended the following meetings of the Board and its sub-committees (of the total meetings which could have been attended):

	Board (6 meetings)	Audit Committee (4 meetings)	Regulatory Review Committee (4 meetings)	Referrals Committee (8 meetings)
<b>Chairman</b>				
George Jenkins*	- - - - -	■ ■	- - - - -	- - - - - - - -
Clive Tucker*	■ ■ ■ - - -	- - - -	■ ■ ■ -	■ ■ ■ ■ ■ ■ ■
<b>Executive Directors</b>				
Marcine Waterman	- ■ ■ ■ ■ ■	■ ■ ■ ■ ■ ■	■ ■ ■ ■ ■ ■	- - - - - - - -
Neil Swift	■ ■ ■ ■ ■ ■	■ ■ ■ ■ ■ ■	- - - -	- - - - - - - -
Ian McPherson	■ ■ ■ ■ ■ ■	- - - -	- - - -	- - - - - - - -
Matthew Rees	■ ■ ■ ■ ■ ■	- - - -	- - - -	- - - - - - - -
<b>Non-Executive Directors</b>				
Marta Philips	■ ■ ■ ■ ■ ■	■ ■ ■ ■ ■ ■	- - - - ■	■ ■ ■ ■ ■ ■ ■
David Johnston*	- ■ ■ ■ ■ ■	- ■ ■ ■ ■ ■	- - - -	■ ■ ■ ■ ■ ■ ■ ■
Terence Jagger*	- - - - -	■ ■	- - - -	■ ■ ■ ■ ■ ■ ■
Jane Attwood	■ ■ ■ ■ ■ -	■ ■ ■ ■ ■ -	■ ■ ■ ■ ■ ■	- - - - - - - -

\* George Jenkins was appointed as Chair of the SSRO on 3 January 2017

\* Clive Tucker left the SSRO on 20 October 2016

\* David Johnston was appointed to the SSRO Board on 1 June 2016

\* Terence Jagger was appointed to the SSRO Board on 22 January 2017

### The SSRO Audit Committee

On behalf of the Board, the Audit Committee provides scrutiny, oversight and assurance of risk management, internal control and governance procedures to myself, as Interim Accounting Officer, Marcine Waterman as Chief Executive and Accounting Officer, and to the Board. The Audit Committee last reviewed its terms of reference to ensure they were fit for purpose in December 2016 and will continue to do so on an annual basis.

During 2016/17 the Audit Committee was chaired by Marta Phillips, with Jane Attwood as the other non-executive member. David Johnston was appointed as a member of the Committee in June 2016 and Terence Jagger in January 2017. The Audit Committee has met four times during 2016/17. Throughout this period the Audit Committee carried out a range of actions, including:

- Overseeing the SSRO's assessment and management of risk, through giving regular consideration to the SSRO's Corporate Risk Register, and completing an annual review of the SSRO's Risk Management Policy. Further detail on our risk monitoring and mitigation is discussed below.
- Completing an annual review of the SSRO's prime and detailed policies, as required by the Corporate Governance Framework.
- Giving consideration to regular performance and financial management information through the review of the regular Director of Corporate Resources report.
- Overseeing the arrangements for controlling and reporting SSRO expenditure.
- Overseeing the production of the Annual Report and Accounts, including considering a set of interim Accounts for 2016/17, and recommending them to the Board for approval.
- Being responsible for the SSRO's internal control systems and arrangements for internal audit; in particular appointing the internal auditors; approving their work plan; and reviewing their reports, and the responses of management; following up all agreed recommendations to ensure that management has taken them forward.
- Being responsible for the SSRO's external audit; reviewing the National Audit Office's work plan for the 2016/17 financial statement audit; reviewing and giving consideration to their Audit Completion report and Management Letter; and the responses of management; and following up all agreed recommendations to ensure that management has taken them forward.
- Completing an annual report on the Audit Committee's own effectiveness and the overall governance of the SSRO, which was considered as part of the annual review of the Board's effectiveness.

### The SSRO Referrals Committee

The Act requires that several of the SSRO's functions, listed in Schedule 4, Section 10(3), be exercised by a committee. In March 2015, the SSRO established the Referrals Committee to carry out these functions. The Act further states that this Committee must consist of three persons and at least one of the members of such a committee must be a person who is not a member or employee of the SSRO.

During 2016/17 the Referrals Committee was chaired by Clive Tucker, with Marta Phillips as the second non-executive member. From February 2017, the Referrals Committee was chaired by Terence Jagger with David Johnston as the second non-executive member.

In line with the Act, the SSRO has recruited three external referral panel members who are not employees or members of the SSRO. Following receipt of a referral and consideration of any potential conflict of interests in relation to the specific issue, one of these independent members is appointed to the Committee for the duration of the referral in question. During 2016/17, Terence Jagger (before his appointment as a non-executive Board member) and Christine Fraser were appointed to the Committee for specific referrals.

The Committee met eight times during 2016/17 to consider two opinions and one determination under the Act.

The Committee is responsible for considering all matters related to the functions listed below, as and when they arise:

- Section 16(2)(b) - price adjustments;
- Section 18(3) – determinations about the contract profit rate;
- Section 20(5) or (6) – determinations about allowable costs;
- Section 21(3)(b) – determinations about final price adjustments;
- Section 23(6) or (7) – determinations about the use of records;
- Section 27(3) – investigating confidentiality obligations;
- Section 29(5) - determining whether a contract is a qualifying sub contract;
- Section 30(4)(b) – overruling a notice that Part 2 of the Act and the Single Source Contract Regulations 2014 should cease to apply to a sub-contract;
- Section 32(8) – determinations on a penalty; and
- Section 35(1), (3), (4) and (7) - opinions and determinations.

The Referrals Committee last reviewed its term of reference to ensure they were fit for purpose in September 2016. It will continue to do so on an annual basis.

### The SSRO Regulatory Review Committee

On behalf of the Board, the Regulatory Review Committee provides oversight and scrutiny to enable the SSRO to carry out its statutory functions. Its primary role is to oversee the SSRO's review of the Act and Regulations. The SSRO is required by the Act to keep Part 2 of the Act and the associated Regulations under review and to recommend to the Secretary of State such changes as it considers appropriate. The Secretary of State must then have regard to the findings and recommendations of the SSRO when deciding whether to alter the existing statutory framework.

During 2016/17 the Regulatory Review Committee was chaired by Jane Attwood, with Clive Tucker as the other non-executive member until his resignation in October 2016, when Marta Phillips was appointed in his place. I am also a member of the Committee. The Committee has met four times during 2016/17, during which it carried out several actions, which include:

- overseeing the review of the Act and Regulations, and making recommendations to the Board, which has overall responsibility for keeping the legislation under review;
- providing early scrutiny and making recommendations to the Board on the SSRO's substantial review of the baseline profit rate methodology;
- providing review and oversight of statutory guidance and reporting requirements, such as the Single Source Cost Standards and the establishment of the Defined Pricing Structure; and
- acting as a project board for the implementation of the SSRO's secure reporting database Defence Contracts Analysis and Reporting System (DefCARS).

The Regulatory Review Committee last reviewed its term of reference to ensure they were fit for purpose in December 2016. It will continue to do so on an annual basis.

### SSRO Executive Committee

The SSRO Executive Committee is responsible for the day-to-day management of the SSRO, and assists in the performance of my duties.

The Executive Committee was established in May 2015. The Committee's Executive Scheme of Delegation was prepared in accordance with the SSRO's Framework Document and Corporate Governance Framework, which requires the Chief Executive to prepare and maintain a comprehensive Scheme of Delegation for the organisation. This Scheme must be read in conjunction with Part 4 of the Corporate Governance Framework, which reserves certain matters to the Board.

During 2016/17, the Committee met monthly. I chair the Executive Committee, whose other members are the Director of Analysis and Reporting, the Director of Compliance and Investigations, and the Director of Corporate Resources.

### Risks and internal controls

Internal controls aim to reduce risk, not remove it. The SSRO gains assurance that risks are kept under control by ensuring controls are robust in design and work as intended.

The principal features of the system of internal control in place throughout the year are:

- an organisational structure that supports clear lines of communication, monitoring, reporting and accountability;
- plans, objectives and priorities, which take account of risk and are approved by the Board; and
- a corporate risk policy approved annually by the Audit Committee.

The SSRO's risk management policy is reviewed annually and provides for a corporate risk register to be maintained and reviewed regularly by the Executive Committee and Audit Committee.

### Risks and risk management

Risk management is an integral part of the SSRO's internal control framework, for which I am responsible. The SSRO's Corporate Governance Framework states that it is the Board's responsibility to put in place "effective arrangements to provide assurance on risk management, governance and internal control" and that "The Audit Committee will have responsibility for the independent review of the risk management system", while reporting to the Board on the SSRO's risk management arrangements. The Chief Executive's responsibility is to put in place appropriate arrangements for risk management, which are overseen by the Board and Audit Committee.

The SSRO's risk management arrangements are proportionate to the scale of the organisation; there is a single corporate risk register, containing around 10 risks at any point. Executive Committee members manage local risks and only include risks in the corporate risk register if they are significant. The Audit Committee considers the risk register at each meeting, and risks are escalated by the Executive Committee through the regular Corporate Performance Report.

The Director of Corporate Resources is Executive Committee member responsible for the SSRO's overall risk management arrangements and for reporting on risk to Executive Committee meetings. Members of the Executive Committee manage the individual risks to their functions and projects.

The Executive Committee considers its tolerance for each risk, as follows:

- **High** – the SSRO would not suffer an adverse impact if the risk came about, so will not assign significant resources to mitigating the risk;
- **Medium** – the SSRO would be affected if the risk came about and will take proportionate action to avoid the risk; or
- **Low** – the SSRO would be fundamentally affected if the risk came about and will seek to avoid the risk if possible.

The SSRO's tolerance of risk is usually low - this is especially true of stakeholder and reputational risks. The Executive Committee considers for each risk the reputational implications for the SSRO if it was realised. Risk tolerance is also considered by the Audit Committee at each meeting, and reported to the SSRO Board by the Chair of the Committee.

### Financial management

The SSRO has effective controls in place to forecast, manage and report on its expenditure.

The SSRO Board considers the SSRO's performance and progress against its Corporate Plan and budget. A review of management accounts is completed each month and financial performance reported to the Board at each meeting. The SSRO prepares and analyses key financial information by regularly liaising with key areas of the organisation to ensure that the SSRO's Executive Committee is able to make well informed decisions.

The SSRO continues to deliver value for money through having robust internal financial controls. The SSRO approves all spending before supply, and it publishes details of departmental spending over £25,000 on its website.

The SSRO receives Grant In Aid from the MOD. The use of this grant is fully documented and is monitored throughout the year.



## How we evaluate internal controls

### The SSRO Audit Committee

The role of the Audit Committee is set out above.

### Internal audit

During 2016/17 internal audit has been provided by GIAA, which reports its independent opinion on the adequacy and effectiveness of the SSRO's system of internal control and makes recommendations for improvement. The SSRO also encourages and supports liaison between internal and external audit to achieve a more effective audit, based on a clear understanding of respective roles and requirements.

During the year, four audit assignments were completed and final reports issued on:

- project management;
- IT controls;
- key financial systems;
- governance.

GIAA presented a summary of the work of internal audit to the Audit Committee at

the March 2017 meeting of the Audit Committee, where the Committee also approved an internal audit programme for 2017/18. A substantial assurance Head of Internal Audit Opinion was issued in June 2017.

GIAA attends all Audit Committee meetings and has direct access to me and to the Chair of the Audit Committee. GIAA is afforded the opportunity for a private session with the Audit Committee members at least every year.

### External audit

The external auditor, the Comptroller and Auditor General, is appointed by statute. The NAO comments in its annual management letter on governance and controls issues arising from the external audit of the SSRO's financial statements.

A representative of the external auditor is invited to, and attends, all Audit Committee meetings and has direct access to me, to GIAA and to the Chair of the Audit Committee. The external auditor is afforded the opportunity for a private session with the Audit Committee at least once a year.

**...the SSRO  
achieved substantial  
assurance in all audit  
assignments**

### Quality assurance over business critical models

I am required to include confirmation that an appropriate quality assurance framework is in place and is used for all business critical models. As part of our project delivery assurance processes, separate independent assurance at key stages of any project will be requested from either the contractor or via an external provider (for example GIAA). There were no projects requiring such assurance during the period.

### Information assurance

The SSRO's Director of Corporate Resources is the Senior Information Risk Owner, supported by the Head of IT and Information Management as the Departmental Security Officer. The SSRO is a data controller under the Data Protection Act 1998 and is subject to the Freedom of Information Act 2000. The SSRO pays appropriate regard to the requirements set out in the HMG Security Policy Framework and the guidance issued by the National Cyber Security Centre (NCSC), Cabinet Office and the Centre for the Protection of National Infrastructure (CPNI). The SSRO IT Strategy makes use of modern and 'cloud' technologies, in line with Cabinet Office guidance for government IT and was reviewed in 2016/17 to ensure ongoing compliance with relevant guidelines and requirements.

In accordance with the IT Strategy, the SSRO partners with an IT service organisation with specialist cloud expertise alongside security experts providing secure connectivity, protective monitoring and external vulnerability scanning services. The SSRO achieved Cyber Essentials Plus certification in March 2016 and has undertaken a gap analysis against ISO 27001, the information security standard, with the aim of working towards future accreditation. All staff are required to annually complete the Civil Service Learning 'Responsible for Information' training appropriate for their role and are provided with training on the Government Security Classifications and the SSRO Information Classifications and Handling Policy and IT Acceptable Use Policy issued to all staff. In parallel with this action on the SSRO's corporate infrastructure, full security accreditation was received on the DefCARS system providing assurance to external stakeholders on the safe collection, storage, handling and analysis of reporting data given to us.

**...the SSRO  
achieved Cyber  
Essentials Plus  
certification in  
March 2016**



Security breaches and near misses are reported to the Executive Committee and the Audit Committee with individual breaches considered and escalated as appropriate dependent on their seriousness. During the reporting period there were no incidents identified which required the SSRO to inform or escalate a matter to the Information Commissioner's Office.

### Review of effectiveness

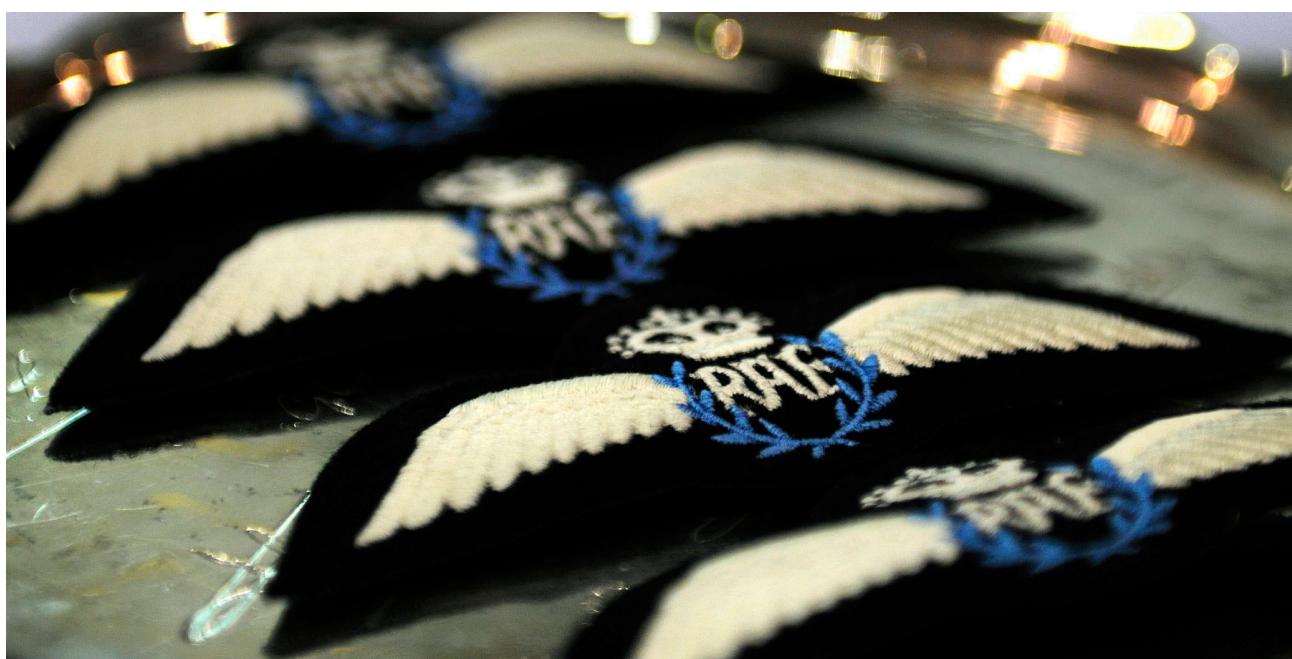
As Accounting Officer, I have responsibility for reviewing the effectiveness of the SSRO's internal controls. My review of the control framework is informed by the work of the internal auditors and the senior managers of the SSRO, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their Management Letter and other reports.

### Significant control issues

Despite the significant challenges during the year, no significant control issues arose during 2016/17 that need reporting in the Governance Statement. The National Audit Office and internal audit has not raised any issues of significance in their Management Letter for 2016/17.

As part of the review of effectiveness, I am required to disclose any actions taken or proposed to deal with significant control issues. Taking into account the tests in Managing Public Money, external audit and value-for-money reports I can confirm that the SSRO has not had any significant control issues during 2016/17 and currently has no significant weaknesses to address.

The SSRO has upheld internal controls during the year through risk management and other sources of assurance, including internal audit. I therefore believe there are satisfactory controls in place to identify and manage the significant risks faced by the SSRO.



# Remuneration and staff report

## Remuneration Policy

For the Chief Executive, remuneration is set by the SSRO Board. The appointment of the Chief Executive was approved by the Minister of State for Defence Procurement. For the Executive Directors, remuneration is set by the Chief Executive, in line with the SSRO's terms and conditions of employment. All arrangements comply with current government guidance on public sector pay.

## Salary and pension entitlements

The following sections provide remuneration and pension details of the SSRO during 2016/17, and have been subject to external audit.

### Salary

Salary includes gross salary and any other allowances to the extent that they are subject to UK taxation. This report is based on accrued payments made by the organisation and thus recorded in these accounts.

The Chief Executive was appointed following a competitive selection exercise. The remuneration package was agreed by the SSRO Board.

The Executive Committee structure was agreed by the Board. Appointments were made by the Chief Executive, in line with the SSRO's terms and conditions of service.

### Benefits in kind

The definition and monetary value of benefits in kind covers any benefits provided by the organisation and treated by HM Revenue and Customs as a taxable emolument. All employees are eligible for a travel card for travel within London.

### Performance related pay

Members of the Executive Committee and other senior staff are eligible for an annual performance related payment, which is calculated as a percentage of salary based on the individual's performance as assessed through the appraisal process. Other staff are eligible for one-off performance related payments which are assessed on individual work performance during the year.

No element of a performance payment is pensionable. The performance payments reported relate to performance in 2016/17.

### Pension

The Chief Executive, Executive Directors and employees are eligible to be members of the Civil Service Pension Scheme. This is a defined benefit scheme, with the same level of benefits for all members. Contribution rates vary according to salary.

### Other terms of employment

The Chief Executive and Executive Directors all have permanent employment contracts. The Chief Executive and Executive Directors are required to give three months' notice if they resign.

All other terms and conditions are the same as for other staff.

**Total remuneration and pension entitlements for the Executive Committee  
(audited)**

Executive Committee remuneration											
	Salary		Bonus payments		Benefits in kind (to nearest £100)		Pension benefits		Total Remuneration		
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	
	£000	£000	£000	£000			£000	£000	£000	£000	£000
<b>Chief Executive</b>											
Marcine Waterman Annual equivalent	140-145	140-145	15-20	15-20	2,400	2,200	56	55	215-220	210-220	
<b>Executive Committee</b>											
Neil Swift Annual equivalent	120-125	110-115 115-120	0-5	5-10	2,400	2,300	47	44	170-175	165-170	
Ian McPherson Annual equivalent	120-125	10-15 115-120	0-5	-	2,200	200	47	4	170-175	10-15	
Matthew Rees Annual equivalent	120-125	5-10 115-120	0-5	-	-	-	20	1	145-150	5-10	
Philip Davies Annual equivalent		50-55 120-125	-	-	-	1,000	-	20	-	70-75	

[1] The SSRO has not made any compensation payments to Executive Directors for loss of office in the year up to 31 March 2017 (2015/16: nil).

[2] Executive Directors' job titles, start and end dates are included in the Board appointment dates table.

### Executive Committee Pension entitlements

	Accrued pension at pension age and related lump sum as at 31 March 2017 <sup>[1]</sup>	Real increase in pension and related lump sum at pension age	CETV at 31 March 2017	CETV at 31 March 2016	Real increase in CETV	Employer contributions to the partnership pension account (to nearest £100)
	£000	£000	£000	£000	£000	
<b>Chief Executive</b>						
Marcine Waterman	5-10	2.5-5	85	41	32	-
<b>Executive Committee</b>						
Neil Swift	5-10	2.5-5	60	28	22	-
Ian McPherson	0-5	2.5-5	51	4	39	-
Matthew Rees	-	-	-	-	-	20,400

[1] The SSRO has not made any early retirement payments to Directors during 2016/17.

#### Civil Service Pensions

Pension benefits are provided through the civil service pension arrangements. From 1 April 2015, the new 'alpha' pension scheme for civil servants was introduced, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date, all newly appointed employees and those already in service joined alpha.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under alpha are increased annually in line with pensions increase legislation.

Employee contributions are salary-related and range between 4.6 per cent and 8.05 per cent. In alpha, a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March 2017) the member's earned pension account is credited with 2.32 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. Members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent up to 30 September 2015 and 8 per cent and 14.75 per cent from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary up to 30 September 2015 and 0.5 per cent of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is the highest of 65 or the State Pension Age for members of alpha.

Further details about the Civil Service pension arrangements can be found at the website [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk).

### **Cash Equivalent Transfer Values**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued because of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the civil service pension arrangements. They also include any additional pension benefit accrued to the member because of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax, which may be due when pension benefits are taken.

### **Real increase in CETV**

The real increase reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation and contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement); it uses common market valuation factors for the start and end of the period.

### Remuneration for the Chair and non-executive Board members (audited)

The remuneration of the Chair and the non-executive Board members is set by the Minister for Defence Procurement. Remuneration of the Chair and the non-executive Board members is by payment of salaries and they have no entitlement to performance related pay or pension benefits. The Chair is paid £592 per day and the non-executive Board members are paid £500 per day. The Chair is paid an average of three days per week (previous Chair and Interim Chair paid an average of two days a week) and the non-executive Board members are appointed to work between two and four days per month on average.

Non-Executive Directors may be appointed as Referral Panel Members, and will work additional days as each Referral requires. The SSRO receives separate funding for this work.

The following table summarises the salaries of the Chair and the non-executive Board members.

		2016/17	2015/16
	Date appointed	£000	£000
<b>Chair</b>			
George Jenkins Annual equivalent	3 January 2017	15-20 70-75	-
<b>Interim Chair</b>			
Clive Tucker <sup>[4]</sup> Annual equivalent	September 2014	35-40 55-60	25-30 25-30
<b>Previous Chair</b>			
Jeremy Newman Annual equivalent	July 2014	-	55-60 55-60
<b>Non-Executive Board Members</b>			
Jane Attwood Annual equivalent	September 2014	10-15 10-15	10-15 10-15
Terence Jagger <sup>[1]</sup> Annual equivalent	January 2017	0-5 10-15	-
David Johnston <sup>[2]</sup> Annual equivalent	June 2016	15-20 15-20	-
Marta Phillips <sup>[3]</sup> Annual equivalent	September 2014	15-20 15-20	10-15 10-15

[1] Terence Jagger worked an additional 4 days during the year as a Referral Panel Member. Remuneration for these days (£1,800) is included in his total remuneration figures.

[2] David Johnston worked a total of 15 additional days during the year including 2.5 days as a Referral Panel Member. This remuneration (£7,500) is included in his total remuneration figures.

[3] Marta Phillips worked a total of 12 additional days during the year including 3.5 days as a Referral Panel Member. This remuneration (£5,900) is included in her total remuneration figures.

[4] Clive Tucker resigned from his post on 20 October 2016 Clive worked an additional 4 days during the year and this remuneration (£2,000) is included in his total remuneration figure.

[5] There were no other benefits paid to the Chair or non-executive Board members.

[6] Non-Executive Directors' job titles, start and end dates are included in the Board appointment dates table.

### Fair pay disclosures (audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director and the median remuneration of the organisation's workforce.

Remuneration includes salary, non-consolidated performance related pay and benefits in kind. The figures do not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions. This is summarised in the following table.

	2016/17	2015/16
Highest paid director's total remuneration band	160-165	160 – 165
Median total remuneration	73	71
Ratio	<b>2.2</b>	<b>2.3</b>

During the year to 31 March 2017 there were no employees receiving a higher remuneration than the highest paid director (2015/16: nil). SSRO employee remuneration ranges from £25,000 to £128,000 (2015/16 £19,000 to £128,000).

The median total remuneration during the year was £72,632 (2015/16: £71,000).

### Staff report

#### Staff policies

During the 2016/17 financial year the SSRO has treated all employees fairly and in line with the Equalities Act 2010 and our internal policies. The SSRO gives full and fair consideration to all applications for employment, appointing to posts based on merit. The SSRO arranges appropriate training to ensure the continuing development of its employees.

#### Staff numbers

The table below sets out the average number of full time equivalent staff employed during the year.

	2016/17	2015/16
	£000	£000
Permanent <sup>[1]</sup>	33	22
Non payroll <sup>[2]</sup>	2	4
<b>Total</b>	<b>35</b>	<b>26</b>

[1] Permanent employee figures excludes Non Executive Board Members

[2] Non-payroll figures include secondments and contractors

### Staff costs (audited)

The following table provides an analysis of the staff costs included the Statement of Comprehensive Expenditure.

	2016/17			2015/16		
	Employed staff	Non payroll staff	Total	Employed staff	Non payroll staff	Total
	£000	£000	£000	£000	£000	£000
Salary	2,675	64	2,739	1,769	613	2,382
Social security	327	0	327	189	0	189
Pension	563	0	563	339	0	339
Other benefits	58	0	58	40	0	40
<b>Total costs</b>	<b>3,623</b>	<b>64</b>	<b>3,687</b>	<b>2,337</b>	<b>613</b>	<b>2,950</b>

### Staff composition

The table below sets out the average composition of SSRO employees employed during the period.

	2016/17		2015/16	
	Male	Female	Male	Female
Chief Executive and Directors	3	1	2	1
Employees	18	11	11	8
<b>Total</b>	<b>21</b>	<b>12</b>	<b>13</b>	<b>9</b>

Non-Executive Board Members are not included in the staff composition numbers

### Staff sickness absence

During 2016/17 the average level of sickness absence was one day per employee (2015/16: one).

### Exit packages (audited)

There were no redundancies or other departure costs during the period to 31 March 2017 (2015/16: nil).

### Consultancy expenditure

The SSRO had no consultancy expenditure during 2016/17 (2015/16: nil).

### Contingent labour expenditure

The SSRO incurred costs of £64,000 on contingent labour during 2016/17 (2015/16: £613,000). These costs reduced significantly as permanent employees were recruited into posts.

### Off-payroll engagements

During the period to 31 March 2017 the SSRO had one off-payroll engagement for more than £220 per day that lasted for longer than six months (2015/16: two).

As at 31 March 2017 the SSRO had one off-payroll contract engagement for more than £220 per day that lasted for longer than six months (2015/16: one).

This off-payroll engagement was via agency arrangement. As this engagement is with an agency, it has been considered low risk therefore assurance as to whether the individual is paying tax has not been required.

The SSRO had ten Board members and/or senior officials with significant responsibility during the period to 31 March 2017 (2015/16: nine). None of these Board members and/or senior officials were off-payroll engagements.

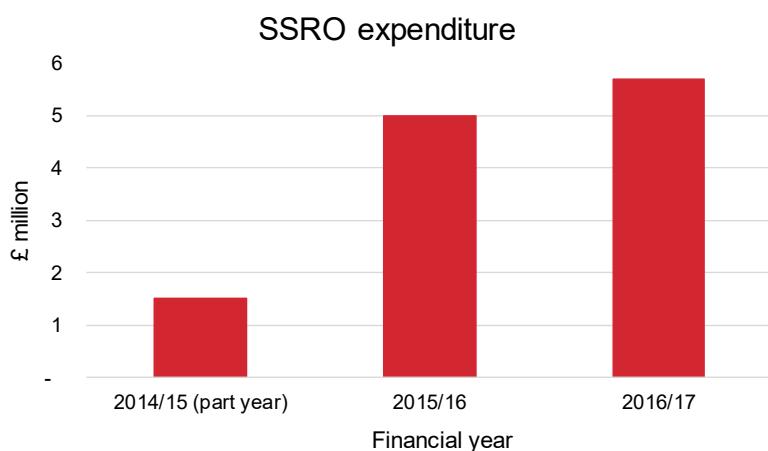
# Parliamentary accountability and audit report

## Regularity of expenditure (audited)

All expenditure incurred in the period to 31 March 2017 was in accordance with treasury and other government guidance. All expenditure was regular and in line with the purposes for which Grant in Aid was provided.

## Long term expenditure trends

The SSRO is in its third year of operation. The SSRO's recurrent costs are largely fixed, but as the organisation's work continues to develop, new resource requirements are identified and one-off development costs incurred. Its expenditure trend since inception is shown below.



\* Expenditure incurred during 2014/15 related to the part year period between 14 July 2014 to 31 March 2015.

## Losses and special payments (audited)

There were no losses or special payments during the year to 31 March 2017 (2015/16: nil).

## Remote contingent liabilities

The SSRO has no remote contingent liabilities. The SSRO has a contingent liability relating to potential dilapidations which is disclosed in note 14 of the accounts.

**Neil Swift, Interim Accounting Officer**

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Single Source Regulations Office for the year ended 31 March 2017 under the Defence Reform Act 2014. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

## **Respective responsibilities of the Accounting Officer and auditor**

As explained more fully in the Statement of Accounting Officer's responsibilities, the Chief Operating Officer as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Defence Reform Act 2014. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Single Source Regulations Office's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Single Source Regulations Office and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Single Source Regulations Office's affairs as at 31 March 2017 and of the net operating expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Defence Reform Act 2014 and Secretary of State directions issued thereunder.

### Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with Secretary of State directions made under the Defence Reform Act 2014; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability Disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

**Report**

I have no observations to make on these financial statements.

**Sir Amyas C E Morse  
Comptroller and Auditor General**

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

**Date: 11 July 2017**

# Financial Statements

# Statement of Comprehensive Net Expenditure

for the year to 31 March 2017

		Year to 31 March 2017	Period to 31 March 2016
	Note	£000	£000
<b>Income</b>			
Other operating income	2	0	(4)
<b>Total income</b>			
		0	(4)
<b>Expenditure</b>			
Staff costs	3	3,687	2,950
Other expenditure	4	1,716	1,974
<b>Total expenditure</b>			
		5,403	4,924
<b>Net Operating Expenditure</b>		<b>5,403</b>	<b>4,920</b>

All expenditure relates to continuing operations. The Notes to the Financial Statements on pages 81 to 92 form part of these accounts.

# Statement of Financial Position

as at 31 March 2017

		As at 31 March 2017	As at 31 March 2016
	Note	£000	£000
<b>Non-current assets</b>			
Plant and equipment	5	<b>407</b>	460
Intangible assets	6	<b>406</b>	45
<b>Total non-current assets</b>		<b>813</b>	<b>505</b>
<b>Current assets</b>			
Other receivables	7	93	70
Cash and cash equivalents	8	338	232
<b>Total current assets</b>		<b>431</b>	<b>302</b>
<b>Total assets</b>		<b>1,244</b>	<b>807</b>
<b>Current liabilities</b>			
Trade and other payables	9	313	322
<b>Total current liabilities</b>		<b>313</b>	<b>322</b>
<b>Total assets less current liabilities</b>		<b>931</b>	<b>485</b>
<b>Taxpayers' equity</b>			
General Fund	10	931	485
<b>Total taxpayers' equity</b>		<b>931</b>	<b>485</b>

The Notes to the Financial Statements on pages 81 to 92 form part of these accounts.

**Neil Swift**

**Interim Accounting Officer**

**10 July 2017**

# Statement of Cash Flows

for the year to 31 March 2017

		Year to 31 March 2017	Period to 31 March 2016
	Note	£000	£000
<b>Cash flows from operating activities</b>			
Net operating expenditure		(5,403)	(4,920)
Depreciation	5	92	63
Amortisation	6	44	29
Increase in other receivables	7	(23)	(42)
Decrease in other payables	9	(9)	60
<b>Net cash outflow from operating activities</b>		<b>(5,299)</b>	<b>(4,810)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(39)	(157)
Purchase of intangible assets	6	(405)	(71)
<b>Net cash outflow from investing activities</b>		<b>(444)</b>	<b>(228)</b>
<b>Cash flows from financing activities</b>			
Grant in aid	10	5,849	3,619
<b>Net cash inflow from financing activities</b>		<b>5,849</b>	<b>3,619</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		<b>106</b>	<b>(1,419)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>232</b>	<b>1,651</b>
<b>Cash and cash equivalents at the year end</b>	8	<b>338</b>	<b>232</b>

The Notes to the Financial Statements on pages 81 to 92 form part of these accounts.

# Statement of Changes in Taxpayers' Equity

for the period to 31 March 2017

	£000
<b>General fund opening balance 1 April 2015</b>	<b>1,786</b>
Total Grant in aid received	3,619
Total comprehensive expenditure	(4,920)
<b>General fund as at 31 March 2016</b>	<b>485</b>
Total Grant in aid received	5,849
Total comprehensive expenditure	(5,403)
<b>General fund as at 31 March 2017</b>	<b>931</b>

# Notes to the Financial Statements

**The notes that follow form part of the financial statements.**

## Note 1: Accounting conventions and policies

### 1.1 Basis of accounts preparation

These financial statements have been prepared in accordance with the 2016/17 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the SSRO for the purpose of giving a true and fair view has been selected. The policies adopted by the SSRO are outlined below. They have been applied consistently in dealing with items that are considered material to the accounts. We also include additional disclosures in line with our Accounts Direction issued by the MOD (Appendix 1).

### 1.2 Accounting convention

The SSRO prepare these accounts using the historical cost convention, adjusted to account for the:

- revaluation of non-current assets to their value to the business by reference to their current costs; and
- valuation of financial instruments at fair value (note 1.11).

### 1.3 Going concern

These financial statements are prepared on a going concern basis.

### 1.4 Recent changes to accounting standards affecting the preparation of accounts

The SSRO have considered, under International Accounting Standard (IAS) 8, whether there have been any changes to accounting policies arising from IFRS that have an impact on the current or prior year, or may have an effect on future years.

The SSRO have reviewed any new or amended standards issued by the International Accounting Standards Board, to decide whether they should make any disclosures in respect of those new IFRS that are, or will be, applicable.

There are no changes impacting the 2016/17 financial statements.

There are a number of standards which are not effective yet. These include:

- IFRS 9 Financial Instruments (effective 1 January 2018) which reduces the accounting options available for types of financial instruments;

- IFRS 15 Revenue from contracts with customers (effective 1 January 2018) which provides more guidance on recognition of revenue; and
- IFRS 16 Leases (1 January 2019) which requires all significant leases to be included in the Statement of Financial Position.

These standards have not been adopted by the FReM, but the SSRO Management Team will make an assessment of the impact of these standards once it becomes clear how they will be adapted in the public sector.

### 1.5 Grant in aid

The SSRO treat grants, whether revenue or capital, as contributions from controlling parties giving rise to financial interest in our organisation and we credit them directly to the fund reserve.

### 1.6 Value added tax (VAT)

The SSRO is not registered for VAT, therefore any VAT incurred is not recoverable. The SSRO expense any VAT to the Statement of Net Expenditure in the period it is incurred.

### 1.7 Property, plant and equipment

The SSRO capitalise office refurbishments, computer equipment purchases and other equipment purchases for individual purchases over £1,000 or grouped purchases over £5,000.

### 1.8 Intangible assets

The SSRO capitalise internally generated assets and new software, including any licences that cover the life of the software for individual purchases over £1,000 or grouped purchases over £5,000. Internally generated assets are capitalised once they meet the criteria for the development phase under IAS 38. Research costs are expensed in the year they relate to.

### 1.9 Donated assets

Donated assets are capitalised at their current value on receipt, and this value is credited to the Statement of Comprehensive Income. Donated assets are depreciated in the same way as other non-current assets.

### 1.10 Depreciation and amortisation

The SSRO provide for depreciation on all property, plant and equipment assets and amortisation of intangible assets. The SSRO calculate depreciation charges to write off the cost less the estimated residual value of each asset in equal annual instalments over its expected useful life. Where an asset comes into use on or after the 15th of a month the asset will start depreciating in the first full month of service. Unless otherwise appropriate, the SSRO have set the expected useful life of each category of asset as:

- leasehold improvements, over the remaining term of the lease;
- furniture, fittings and office equipment five to seven years;
- computer equipment, three to five years; and
- intangible assets, three to five years.

### 1.11 Financial Instruments

The fair value of our financial instruments (other receivables and payables) are valued at their nominal amount as they are due in less than 12 months.

### 1.12 Operating leases

The SSRO charge operating lease rentals on a straight-line basis over the lease term.

### 1.13 Provisions

In accordance with IAS 37, provisions are disclosed in the Statement of Financial Position for legal and constructive obligations in existence and the end of the reporting period if the payment amount to settle the obligation is probable and can be reliably estimated.

### 1.14 Accounting estimates

Judgements and estimates are required in applying our accounting policies that may affect the amounts we include in our financial statements. The main area is:

- Non-current assets (notes 5 and 6) - we review non-current assets each year for impairment and to ensure useful lives remain appropriate, in line with accounting standards.

### 1.15 Pensions

SSRO staff are eligible for a pension provided by the Principal Civil Service Pension Scheme (PCSPS). The SSRO has been included in Schedule 1 of the Superannuation Act 1972 as per schedule 4 of the Defence Reform Act 2014.

## Note 2: Operating income

The note below provides a breakdown of the operating income shown in the Statement of Comprehensive Expenditure.

Operating income	Year to 31 March 2017	Period to 31 March 2016
	£000	£000
Non cash income	-	4
<b>Total operating income</b>	<b>-</b>	<b>4</b>

During 2015/16 the SSRO received 8 laptops from the MOD which were recorded as donated assets in these accounts.

## Note 3: Staff costs

The note below provides a breakdown of the staff costs shown in the Statement of Comprehensive Expenditure.

Staff costs	Year to 31 March 2017	Period to 31 March 2016
	£000	£000
Salary	2,739	2,382
Social security	327	189
Pension	563	339
Other benefits	58	40
<b>Total staff costs</b>	<b>3,687</b>	<b>2,950</b>

Further information on staff costs and numbers is included in the Staff report (page 69).

## Note 4: Other expenditure

The note below provides a breakdown of the other expenditure shown in the Statement of Comprehensive Expenditure.

Other expenditure	Year to 31 March 2017	Period to 31 March 2016
	£000	£000
Information Technology	564	564
Accommodation lease costs	346	339
Other accommodation costs	235	195
Professional fees	120	331
Depreciation	92	63
Publications and subscriptions	89	31
Outsourced services	45	54
Amortisation	44	29
Recruitment	32	143
Legal services	31	83
Audit fee – internal	28	28
Travel and subsistence	23	29
Staff training	22	35
Audit fee – external	20	20
Supplies and services	12	21
Insurance	12	7
Other lease costs	1	1
Bank charges	0	1
<b>Total other expenditure</b>	<b>1,716</b>	<b>1,974</b>

The MOD has not incurred any expenditure on the SSRO's behalf in 2016/17. During 2015/16 the MOD incurred costs £46,000 which was not recharged to the SSRO and therefore not included in these accounts.

## Note 5: Property, plant and equipment

This note provides an analysis of the movements in property, plant and equipment shown in the Statement of Financial Position.

	Leasehold improvements £000	Furniture and fittings £000	Information Technology £000	Total £000
<b>Cost</b>				
At 1 April 2016	309	85	135	529
Additions	0	0	39	39
<b>At 31 March 2017</b>	<b>309</b>	<b>85</b>	<b>174</b>	<b>568</b>
<b>Depreciation</b>				
At 1 April 2016	40	13	16	69
Charged in year	37	17	38	92
<b>At 31 March 2017</b>	<b>77</b>	<b>30</b>	<b>54</b>	<b>161</b>
<b>Net book value</b>				
<b>At 31 March 2017</b>	<b>232</b>	<b>55</b>	<b>120</b>	<b>407</b>
<b>Cost</b>				
At 1 April 2015	286	56	30	372
Additions	23	29	105	157
<b>At 31 March 2016</b>	<b>309</b>	<b>85</b>	<b>135</b>	<b>529</b>
<b>Depreciation</b>				
At 1 April 2015	3	1	2	6
Charged in year	37	12	14	63
<b>At 31 March 2016</b>	<b>40</b>	<b>13</b>	<b>16</b>	<b>69</b>
<b>Net book value</b>				
<b>At 31 March 2016</b>	<b>269</b>	<b>72</b>	<b>119</b>	<b>460</b>

All property, plant and equipment assets are owned by the SSRO. There have been no impairments and no revaluations during the year to 31 March 2017. Assets are held on a depreciated historical cost basis, as a proxy for their current value in existing use.

## Note 6: Intangible assets

This note provides an analysis of the movements in intangible assets shown in the Statement of Financial Position.

	£000
<b>Cost</b>	
At 1 April 2016	74
Additions	405
<b>At 31 March 2017</b>	<b>479</b>
<b>Amortisation</b>	
At 1 April 2016	29
Charged in year	44
<b>At 31 March 2017</b>	<b>73</b>
<b>Net book value</b>	
<b>At 31 March 2017</b>	<b>406</b>
<b>Cost</b>	
At 1 April 2015	3
Additions	71
<b>At 31 March 2016</b>	<b>74</b>
<b>Amortisation</b>	
At 1 April 2015	0
Charged in year	29
<b>At 31 March 2016</b>	<b>29</b>
<b>Net book value</b>	
<b>At 31 March 2016</b>	<b>45</b>

All intangible assets are owned by the SSRO. There have been no impairments during the year. The SSRO's additions relate to an internally developed asset (DefCARS2). This asset will be depreciated over 5 years. In line with the SSRO's accounting policies depreciation will start from 1 April 2017, as the asset came into use at the end of March. The asset value will be reviewed annually for any impairment. The pilot database costs are fully depreciated as at 31 March 2017 and the asset will be disposed when it is de-commissioned during the early part of 2017/18.

## Note 7: Other receivables

This note provides an analysis of the other receivables line in the Statement of Financial Position.

	31 March 2017	31 March 2016
	£000	£000
Other receivables	11	8
Prepayments	82	62
<b>Total other receivables</b>	<b>93</b>	<b>70</b>

All SSRO receivables fall due within one year.

This note provides an analysis of other receivables between government and external bodies

	31 March 2017	31 March 2016
	£000	£000
Other Central Government bodies	2	0
External	91	70
<b>Total other payables</b>	<b>93</b>	<b>70</b>

## Note 8: Cash and cash equivalents

The following note summarises the SSRO's cash and cash equivalents as shown in the Statement of Financial Position.

	31 March 2017	31 March 2016
	£000	£000
Balance at 1 April 2016	232	1,651
Net change in cash and cash equivalents	106	(1,419)
<b>Balance at 31 March 2017</b>	<b>338</b>	<b>232</b>

All cash balances are held with the Government Banking Service.

## Note 9: Trade and other payables

This note analyses the SSRO's trade and other payables as shown in the Statement of Financial Position.

	31 March 2017	31 March 2016
	£000	£000
Trade and other payables	<b>19</b>	0
Accruals	<b>196</b>	322
HMRC	<b>98</b>	0
<b>Total trade and other payables</b>	<b>313</b>	<b>322</b>

Invoices totalling £19,000 were due for payment as at 31 March 2017 (2015/16: nil). During the year to 31 March 2017 98 per cent of undisputed invoices were paid within 5 days (2015/16: 96 per cent). All SSRO trade and other payables fall due within one year.

This note provides an analysis of other payables between government and external bodies.

	31 March 2017	31 March 2016
	£000	£000
Other Central Government bodies	126	53
External	187	269
<b>Total other payables</b>	<b>313</b>	<b>322</b>

## Note 10: General Fund

This note shows the movement in the general fund for activities during the year.

	Year to 31 March 2017	Period to 31 March 2016
	£000	£000
<b>General fund brought forward</b>	<b>485</b>	<b>1,786</b>
Grant in aid 2015/16	40	3,619
Grant in aid 2016/17	5,809	0
<b>Total grant in aid received</b>	<b>5,849</b>	<b>3,619</b>
Net expenditure	(5,403)	(4,920)
<b>General Fund carried forward</b>	<b>931</b>	<b>485</b>

Grant in Aid of £1,176,000 relating to 2015/16 was received from the MOD earlier than requested on 31 March 2015.

## Note 11: Financial Instruments

As the cash requirements of SSRO are met through Grant in Aid, financial instruments play a limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the SSRO's expected purchase and usage requirements. The SSRO has little exposure to currency, credit, liquidity or market risk.

## Note 12: Capital commitments

The note below details the SSRO's future contracted capital commitments that are not reflected in the accounts as at 31 March 2017.

	31 March 2017	31 March 2016
	£000	£000
ICOM UK Ltd	0	20
<b>Total contracted capital commitments</b>	<b>0</b>	<b>20</b>

## Note 13: Commitments under leases

### 13.1 Property lease

The note below shows future minimum lease payments for the SSRO's property operating lease for the period.

	31 March 2017	31 March 2016
	£000	£000
Due within one year	355	346
Due up to five years	1,510	1,473
Over five years	494	886
<b>Total future minimum payments for non-cancellable operating leases for properties</b>	<b>2,359</b>	<b>2,705</b>

The SSRO spent £346,000 on operating lease payments for property during the year to 31 March 2017 (2015/16: £339,000).

### 13.2 Photocopier lease

The note below shows future minimum lease payments for the SSRO's photocopier lease for the period.

	31 March 2017	31 March 2016
	£000	£000
Due within one year	1	1
Due up to five years	0	1
<b>Total future minimum payments for non- cancellable photocopier lease</b>	<b>1</b>	<b>2</b>

The SSRO spent £1,000 on photocopier lease payments during the year to 31 March 2017 (2015/16: £953).

### Note 14: Provisions, contingent asset and liabilities

Future costs relating to potential dilapidations relating to the lease for Finlaison House are not included in the accounts. It is currently unclear whether the SSRO will be required to make any payment in the future therefore an amount cannot be accurately estimated.

### Note 15: Related party transactions

The SSRO's related party disclosures meet the requirements of IAS 24. Disclosure relates to key management personnel of the SSRO, or their close family members, who are in a position of significant influence resulting from being elected to, receiving remuneration from or being appointed to any organisation

- that is a government department; or
- that is a provider or receiver of significant services to, or from the SSRO.

All related party transactions and balances as at 31 March 2017 over £1,000 are disclosed below.

#### Key management personnel

There are no related party transactions to report in the period to 31 March 2017 for key personnel. Details of the SSRO's key management personnel can be found in the Remuneration Report.

#### Ministry of Defence (MOD)

The SSRO is a Non-Departmental Public Body sponsored by the MOD. During the year the SSRO received grant in aid from the MOD of £5,849,000 (2015/16: £3,619,000). The SSRO received services totalling £27,000 from the MOD during the year (2015/16: £10,000). There were no balances due or payable by the SSRO as at 31 March 2017 (2015/16: £12,000).

### Other government departments

**Government Actuaries Department (GAD):** during the year, the SSRO were invoiced £499,000 by GAD for services they received (2015/16: £484,000). There was £7,500 payable to GAD as at 31 March 2017 (2015/16: £13,000).

**Business Innovation and Skills:** during the year the SSRO did not receive any services from Business Innovation and Skills (2015/16: £4,000). There were no balances due or payable by the SSRO as at 31 March 2017 (2015/16: nil).

**Ministry of Justice:** during the year the SSRO did not receive any services from the Ministry of Justice (2015/16: £5,000). There were no balance due or payable to the SSRO as at 31 March 2017 (2015/16: nil).

**OFGEM:** during the year the SSRO were invoiced £41,000 for services provided to them (2015/16: £67,000). There were no balances due or payable to the SSRO as at 31 March 2017 (2015/16: nil).

### Note 16: Events occurring after the end of the reporting year

The SSRO's financial statements are laid before the Houses of Parliament by the Ministry of Defence. International Accounting Standard 10 (IAS 10) requires the SSRO to disclose the date on which the certified accounts are approved by the accounting officer.

The MOD Accounting Officer appointed Neil Swift as Interim Accounting Officer, assuming all Accounting Officer responsibilities, on 5 June 2017.

These accounts have been authorised for issue by the Accounting Officer on the same date as the C&AG's Audit Certificate.

# Appendix 1: Accounts Direction

## ACCOUNTS DIRECTION GIVEN BY THE SECRETARY OF STATE FOR DEFENCE IN ACCORDANCE WITH SCHEDULE 4, 12(2) OF THE DEFENCE REFORM ACT 2014

1. This direction applies to the Single Source Regulations Office (SSRO)
2. The SSRO shall prepare accounts in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (the FReM) issued by HM Treasury which is in force for the financial year for which the accounts are being prepared. The accounts shall also comply with any additional disclosure or other requirements which have been agreed with the Department or are mandated by relevant UK legislation (for example The Companies Act) or are issued by HM Treasury or the Cabinet Office.
3. The accounts shall be prepared so as to:
  - a. give a true and fair view of the state of affairs as at 31st March each year and of the net operating costs, recognised gains and losses and cash flows for the financial year then ended; and
  - b. provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.
5. Annual Accounts shall be published for the reporting period ending 31 March 2015 and subsequent financial years, and laid before the House of Commons in accordance with the Parliamentary reporting timetable for the year to which they relate.
6. In addition, SSRO shall operate governance arrangements sufficient to ensure all income and expenditure conforms with the rules on regularity and propriety set out in Managing Public Money.



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DIRECTOR GENERAL FINANCE





ISBN 978-1-4741-4489-6

A standard linear barcode representing the ISBN number 978-1-4741-4489-6.

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