

SSRO

Single Source
Regulations Office

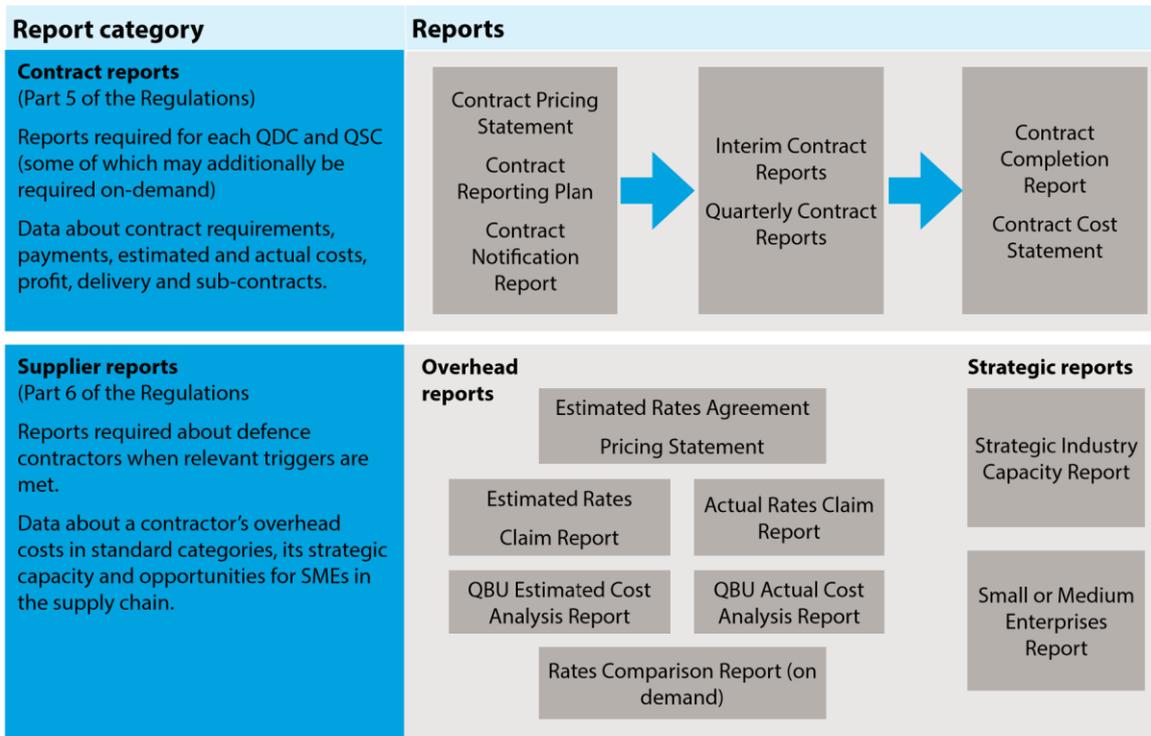
Single source defence contracting statutory reporting: appraisal and evaluation methodology

Appendix 1: Specification

1. Introduction

- 1.1 The Defence Reform Act 2014 (the Act) and the Single Source Contract Regulations 2014 (the Regulations) established regulatory framework for single source defence contracts. The framework places controls on the prices of qualifying defence contracts (QDCs) and qualifying sub-contracts (QSCs) and requires transparency on the part of defence contractors. The UK spends over £8 billion a year on single source Ministry of Defence (MOD) contracts, with a total estimated price of over £40 billion for contracts that became QDCs or QSCs since April 2015.
- 1.2 The Single Source Regulations Office or SSRO is an executive non-departmental public body, sponsored by the Ministry of Defence (MOD). We play a key role in supporting the operation of the regulatory framework. We keep the framework under review, monitoring reporting compliance, giving guidance and answering questions about its operation. We collect and analyse data and provide reports and recommendations to the Secretary of State.
- 1.3 When undertaking our statutory functions, we aim to ensure:
- Good value for money is obtained in government expenditure on qualifying defence contracts.
 - Persons who are parties to qualifying defence contracts are paid a fair and reasonable price under those contracts.
- 1.4 Defence contractors are required to provide reports to the SSRO and the MOD if they hold qualifying contracts under the regulatory framework. The Regulations prescribe the types of reports, their contents and the circumstances in which they must be provided. The reports fall into two broad categories, as summarised in Figure 1:

Figure 1: Reports required under the regulatory framework



*In this table, and in the Regulations, "QBU" refers to a qualifying business unit.

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- 1.5 The Regulations provide for the submission of five overhead reports from a contractor if specified triggers are met in a relevant year. A further report may be required on-demand only. The overhead reports capture actual and estimated rate claims for contractor business units, along with associated costs and supporting assumptions, split by standard categories. The reported data provides a significant, growing resource, which may in theory be used to inform better overhead recovery, for example through benchmarking contractor costs or analysing over- or under-recovery of overhead costs. As at 15 September 2020, 1925 contract reports and 520 supplier reports had been submitted.
- 1.6 The SSRO has established the Defence Contracts Analysis and Reporting System (DefCARS) as a secure, online system that is easy to use and which:
- Enables contractors to submit statutory reports and access their data.
 - Facilitates monitoring of compliance with reporting requirements by the SSRO.
 - Holds reported data and makes it accessible.
 - Produces reports and supports analysis of reported data.
- 1.7 The Ministry of Defence also captures data directly from contractors on matters related to the agreement of overheads in defence contracts. This is a related but independent process, which is not governed by the Act or Regulations and is not facilitated by DefCARS.

2. The review of overheads

- 2.1 The SSRO is reviewing the recovery and reporting of overheads under the regulatory framework to explore the extent to which the relevant provisions facilitate the aims of ensuring the government obtains good value for money on qualifying defence contracts and that contractors are paid a fair and reasonable price. The review draws on the SSRO's functions of:
- keeping under review the provision of Part 2 of the Defence Reform Act 2014 (the Act) and the Single Source Contract Regulations 2014 (the Regulations) and recommending changes;
 - issuing guidance on allowable costs and the preparation of the statutory reports;
 - receiving electronic reports through DefCARS.
- 2.2 The review seeks to analyse the following questions:
- Do the reporting requirements efficiently collect data on overheads?
 - Can the MOD use the collected data effectively to determine whether overheads are allowable costs and avoid under and over recovery?
- 2.3 Answering these questions requires consideration of the costs and benefits of the reporting requirements and potential developments to them. We consider that there is potential to develop a systematic methodology for assessing such costs and benefits, drawing on government best practice in appraisal and evaluation. This should assist the SSRO with the current project but also with its continuing duty to keep the provision of the Act and the Regulations under review.

3. The requirement

3.1 The SSRO requires the contractor to deliver the following:

- an approach to evaluating the overhead reports (an appraisal and evaluation methodology);
- a written report describing the appraisal and evaluation methodology;
- a presentation of the appraisal and evaluation methodology to SSRO staff.

3.2 To address the analytical aims and questions of the review (see **Error! Reference source not found.** and **Error! Reference source not found.**), the SSRO must be able to apply the appraisal and evaluation methodology in in order for it to:

- evaluate whether the reports deliver their intended objectives;
- identify the costs and benefits of capturing the data;
- support appraisal of options for change;
- enable evidence-based decisions about recommending retaining or changing the statutory reporting requirements.

3.3 The appraisal and evaluation methodology must be based on best practice in appraisal and evaluation, drawing on sources such as the Better Regulation Framework, the HMT Green Book and Magenta Book,¹ and will need to incorporate considerations of how SSRO might examine:

- the strategic choices as to how the MOD collects data on overheads about its single source contracts and the associated suppliers;
- approaches that the SSRO should have regard to in valuing the benefits of potential changes to the requirements for collecting data on overheads, including their pros and cons;
- identification and treatment of non-quantifiable benefits;
- establishing the monetary and non-monetary costs of statutory reporting on all affected groups (i.e. MOD, industry, SSRO);
- the treatment of any risks and sensitivities to assumptions which may be present; and
- synthesising information on data on costs, risks and benefits in order to inform decision making about future developments in the overheads reporting.

¹ The Better Regulation Framework and Small Business, Enterprise and Employment Act 2015 (SBEE Act) provide valuable best practice information which could usefully be applied to further develop the reporting requirements. The Green Book sets out how to appraise all policies, including measures under the Better Regulation Framework. For example, how to the conduct of proportionate cost-benefit analysis, and where appropriate establishing the cost to business of the measures. The Magenta Book sets out the processes and methods for conducting an evaluation.

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- 3.4 The appraisal and evaluation methodology must indicate how it can be applied to other areas of statutory reporting in addition to overhead reports. We do not require a plan for benefits realisation.
- 3.5 The contractor must provide to the SSRO a draft report, to be revised based on comments received prior to the final report submission date.
- 3.6 The contractor must engage and correspond at working level with the SSRO in a way that enables it to monitor the progress of the work, respond to questions and comment on the findings of the draft report prior to it being finalised. The SSRO utilises Microsoft Teams for the purposes of telephone and video communications. The contractor must have the ability to connect to participate in video and voice only calls held via Microsoft Teams or provide their own capability that the SSRO can access to communicate using audio and video. The SSRO will make available any relevant documentation the contractor reasonably requires to complete the report and will provide a point of contact for the contractor to provide such information and answer questions.
- 3.7 The contractor must complete the work by the 23 December 2020 (the “Long-stop Completion Date”). The following timetable sets out the proposed milestones for delivering the work, variations to which (other than the Long-stop Completion Date) may be varied by agreement.

Milestone	Date due
Draft report	11 December 2020
Final report	17 December 2020
Presentation	19 December 2020

4. Relationship

- 4.1 The SSRO considers the relationship between the Contractor and the SSRO to be key to delivery of these services which economically, effectively and efficiently support delivery of the SSRO’s functions.
- 4.2 The Contractor must nominate a relationship partner whose role it will be to:
- manage the relationship between the contractor and the SSRO on a day to day basis;
 - be the primary point of contact for the SSRO;
 - propose whichever of the Contractor’s staff is most suitable for a particular matter, having regard to the requirements of economy, effectiveness and efficiency, and remain a point of contact throughout the engagement;
 - actively monitor and advise on conflicts of interest as they arise and be the author of any conflict waiver requests to the SSRO;
 - understand the SSRO as an organisation and help translate that to the contractor’s staff working on a particular matter;
 - ensure compliance with security requirements;

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- remain consistently informed about the Contractor's performance on a matter and be a point of escalation;
- be available to address issues in a timely manner and meet the SSRO's urgency requirements and milestone delivery dates;
- ensure that the agreed fee structure is followed and that costs are communicated to the SSRO on a routine basis throughout an engagement; and
- be a point of contact for the SSRO's auditors if necessary.

5. Conflicts of interest

- 5.1 The SSRO recognises that the Contractor may encounter conflicts of interest due to working with, or having worked with, stakeholders who are subject to regulation by the SSRO. The Contractor must have an effective and efficient mechanism for assessing and managing conflicts of interest, which will enable the SSRO's expectations of timeliness to be met.
- 5.2 Contractors will be required to check for actual or potential conflicts of interest that exist or may arise as a result of their status as an approved provider in accordance with their professional codes of conduct and the nature of the SSRO's activities and the identity of its stakeholders. If the Contractor accepts an engagement without disclosure of a conflict of interest, then the SSRO will take that as a representation that a conflicts check has been conducted and no conflict exists.
- 5.3 The obligation to make conflicts known to the SSRO will continue throughout the Agreement. Contractors will be required to raise conflicts of interest with the SSRO on an ongoing basis as they arise and the SSRO shall make the final decision in each case as to whether the conflict of interest can be mitigated and waived or prevents the Contractor from acting.
- 5.4 Any conflicts will be raised by the Contractor's relationship partner with the Director of Economics and Regulation. Any requests to waive conflicts must be made in writing to the Director of Legal and Policy and must include all relevant facts, including: (a) the identity of the other client; (b) the nature of work; (c) whether the other client has consented to waiving the conflict; and (d) the identity of the individuals working for the other client and details of how they propose to mitigate the impact of the conflict.

6. Information Security

- 6.1 The SSRO takes the security of the information it holds seriously, as demonstrated in its statement on handling commercially sensitive information, which may be viewed here –
- https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/711223/SSRO_Commercially_Sensitive_Information_Handling.pdf
- 6.2 Contractors must handle all materials and communication in connection with the services in a confidential manner. Confidentiality will attach to all information given to the Contractor, by the SSRO or a third party, or materials or communication generated by the Contractor, in connection with delivery of services.