An Overview: Single Source Procurement Framework

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An Overview - Single Source Procurement Framework

1. Introduction

Single source procurement (non-competitive) within the MOD is worth over £6 billion annually, accounting for around 45% of our total procurement\(^1\). Single Source procurement comes about either where there is only a single provider or where there are very strong reasons for maintaining a national capability. In the absence of competition from a potential alternative supplier, value for money (VFM) can often be at significant risk. Suppliers can set prices without the worry of being under-cut by competitors, meaning they can be confident of follow-on work even when performance and efficiency is poor. There is, consequently, less pressure on the supplier to promote innovation or to drive efficiencies.

MOD has used the same single source pricing framework since 1968, known as the Yellow Book\(^2\). This has remained largely unchanged since its introduction, despite huge shifts in the industrial landscape and procurement approaches. Moreover, the Yellow Book system is not legally-binding on either side and lacks an effective mechanism for producing compliance from the suppliers or in protecting the interests of the Department. In addition, it only covers supplier profits and overhead costs which amounts to only about 40% of the total value of contracts.

Following an independent review\(^3\) of the current system by Lord Currie in 2011, the Government produced a White Paper (Better Defence Acquisition, 2013) which recommended strengthening the MOD’s arrangements for single source procurement. This formed the foundations for the Defence Reform Act 2014 (DRA 2014) which provides the legislative base for these new arrangements.

The new Single Source Procurement Framework (SSPF) for defence contracts is now being established. The SSPF is a statutory framework and is expected to come into force in April 2015. The Framework has two main components:

a) New regulations governing single source contracts and suppliers (Part 2 of the Defence Reform Act and single source contract regulations (SSCRs), combined with statutory guidance; and

b) The creation of an arms-length independent body known as the Single Source Regulations Office (SSRO), which will manage and monitor the framework as well as producing its own guidance on issues, such as defining “allowable costs”.

Not all MOD single source contracts will fall under the new framework. It is not retrospective and some contracts (see para 2.2) will be excluded, for example, where they involve the agreement of foreign governments. In addition, the contract must meet the criteria of being a Qualifying Defence Contract or Qualifying Subcontract. However, when a contract is not a QDC, MOD policy will be to make use of the same principles and mechanisms and will seek to negotiate these through contract conditions.

This document aims to give you an initial overview of the SSPF and explain how the new framework differs from the current system. A more comprehensive description of the new arrangements can be found in a longer SSPF document available on the Commercial Toolkit.
1.1 Why is the SSPF being introduced?

The MOD is introducing the SSPF to ensure a fair and reasonable price is paid for goods and services in the absence of competition. This will help maximise the provision of capability to UK armed forces and provide better value for money (VFM) for the taxpayer.

1.2 How is the SSPF different from the way we currently work?

<table>
<thead>
<tr>
<th>Current Yellow Book framework</th>
<th>New Single Source Procurement framework</th>
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<tbody>
<tr>
<td>Poor focus – the current framework is focussed on profit and overheads but does not adequately cover direct costs, subcontracted work, or risk, which together account for the majority of price build up</td>
<td>Improved focus – new reporting requirements combined with new open book and audit rights will give MOD far greater visibility of supplier’s costs. MOD will learn the actual costs to our suppliers of supplying defence equipment and services, with visibility extending through the supply chain to sub-contracts</td>
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<tr>
<td>Inadequate incentivisation of efficiency and rooting out of poor performance – single source suppliers can be confident of follow on work, even if performance is poor</td>
<td>Better efficiency incentives and identification of poor performance – Whilst retaining underlying methodology for setting profit, other changes will incentivise contractors to earn greater profits through cost control. Regular reporting and a statutory obligation to alert MOD to material events will allow earlier identification of poor performance.</td>
</tr>
<tr>
<td>Poor transparency once on contract – although some contracts obtain transparency provisions, others do not. The position is inconsistent across the defence sector and suppliers are sometimes able to hide poor performance and obtain inappropriate levels of profit.</td>
<td>Improved transparency through open book rights and reporting requirements – Mandated, statutory reporting on a regular basis will apply across all contracts and suppliers to which the legislation applies. This will be a step-change in the data that MOD receives, correcting the informational disadvantage uncovered by Lord Currie’s review. Suppliers will have a statutory obligation to report any material events/circumstances that will affect the contract delivery.</td>
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<tr>
<td>Potential over-recovery of overheads – a lot of single source pricing uses forward looking rates agreed with MOD, based on estimated expenditure. Under the current regime it is not easy to assess whether suppliers are over-recovering (i.e. whether MOD is paying too much)</td>
<td>Better scrutiny of overhead recovery – new reports from suppliers will enable the development of defence overhead benchmarks which MOD can use when negotiating contract prices. Suppliers must demonstrate that their overheads are appropriate and reasonable, and that systematic over-recovery is not occurring</td>
</tr>
<tr>
<td>Poor visibility of overhead planning – suppliers can charge overheads without any prior approval or consulting with the MOD about the investment decisions that drive the costs. there is a strong presumption that suppliers can charge MOD for significant costs (i.e. redundancy costs) even if not on contract</td>
<td>Better visibility of overhead planning – a new reporting process will require suppliers to provide MOD with greater visibility of current and future over-capacity, or any rationalisation and redundancy plans for those facilities where substantial overhead is recovered through MOD contracts.</td>
</tr>
<tr>
<td>Current Yellow Book framework</td>
<td>New Single Source Procurement framework</td>
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<td>---------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------</td>
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<tr>
<td><strong>Weak governance of the regime</strong> - the Yellow Book is managed by an advisory Non-Departmental Government Body, the Review Board for Government Contracts. The Board is very constrained as real change requires MOD and industry consensus.</td>
<td><strong>Improved governance</strong> – The new framework has a much tighter compliance and governance regime, with the independent SSRO given responsibility for maintaining a fair, up-to-date framework. The SSRO will be able to make opinions and determinations on a far wider range of issues than the existing Review Board, when matter are referred to it by MOD, industry, or jointly. Non-compliance with aspects of the Act and SSCR may lead to the imposition of civil penalties.</td>
</tr>
<tr>
<td><strong>Inadequate protections</strong> – A key protection in a voluntary pricing regime like the Yellow Book is whether both parties have complied with the agreement. Under the YB, the parties typically have to wait until the end of a contract (which could be 10 years or more) before challenging the honesty of pricing assumptions through a ‘post-costing’ exercise. This is an almost impossible task.</td>
<td><strong>Stronger protections</strong> – new open book rights and more timely checks on whether suppliers have complied with their obligations will provide MOD with relevant information at the time of pricing. Both parties can make earlier referrals to the independent body (the SSRO) if they believe the statutory pricing rules and guidance have not been adhered to, to their disadvantage. These protections are there for suppliers as well as the MOD.</td>
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**1.3 What is the legal basis of the SSPF?**

The SSPF is made up of:

- **Primary legislation**: Part 2 of the DRA 2014 (the Act) relates to Single Source Procurement. The Act is available online at: www.legislation.gov.uk

- **Secondary legislation**: the Single Source Contract Regulations (SSCR). These will be made available at www.legislation.gov.uk once the secondary legislation has been approved by Parliament (expected to take place by the end of 2014).

Together, these pieces of legislation represent the law that will apply to Single Source Procurement. The law will be supplemented by Statutory Guidance issued by the SSRO and the Secretary of State for Defence – the strong presumption is that statutory guidance will be adhered to, although this is not a strict legal requirement and there will be an exemption process that will allow the guidance to be set aside on an exceptional basis, when justified.

The MOD target is for the new legal framework to come-into-force (CIF) as from April 2015, to those contracts meeting the criteria set out below.
2. Qualifying contracts

2.1 Which contracts will be affected by the SSPF?

Contracts are governed by the DRA and SSCR once the framework has CIF and if they meet the criteria to be a Qualifying Defence Contract (QDC). A contract is a QDC if:

a) it is a contract signed on behalf of the Secretary of State for Defence where goods, works or services are being procured for defence purposes; and

b) the contract award is not the result of a competitive process; and

c) the value of the contract is above £5 million; and

d) it is not an excluded contract (see para 2.2).

2.2 Which contracts will be excluded?

The following are excluded contracts, not governed by the legislative framework:

a) contracts with a foreign government;

b) contracts for the purpose of intelligence activities;

c) contracts for the acquisition, management or maintenance of land/buildings; and

d) contracts made within the framework of a cooperative international defence programme, based on research and development.

2.3 Can contracts be exempted?

If a contract (or prospective contract) meets the legal criteria of being a QDC, then it is a QDC. The only way in which an eligible contract may not be a QDC is for it to be exempted from the law.

The power of exemption is granted by the Act to the Secretary of State for Defence; the MOD will have a process for seeking an exemption from the Secretary of State.

It is expected that exemptions will only be granted in exceptional circumstances.

2.4 Does the framework affect subcontracts?

Under criteria set out in the Act and SSCR, some subcontracts will be Qualifying Subcontracts (QSCs). A QSC is:

a) a contract made by a supplier, a significant proportion of which is for the purposes of delivering another QDC or QSC;

b) the contract award is not the result of a competitive process; and

c) the value of the contract is above £25 million

A supplier with a QDC or a QSC must assess whether any subcontract they intend to place is a QSC. If it is they must inform the prospective sub-contractor and the Single Source Advisory Team (SSAT) in the MOD. See section 5.0 for more information about the SSAT.

2.5 How does the SSPF affect contract amendments?

MOD’s requirement may change during the course of a contract, which could lead to amendments of existing contracts. The amendment may be:

a) Of a single source contract placed after the CIF date and already assessed as being either a QDC or a QSC or a non-qualifying contract. A subsequent contract amendment cannot change the original assessment of whether or not the contract is a QDC or QSC.

b) Of a single source contract placed before the CIF date (and therefore not a QDC or a QSC), which is amended after CIF. Such contracts will only become QDCs if both parties (i.e. MOD and the supplier) agree that the amendment makes the contract a QDC.

c) The DRA also covers contracts originally placed under a competitive process but which are subject to amendment after the CIF date but such contracts will only become a QDC if both parties agree that the contract should become a QDC.
a) When a contract that is not a QDC becomes a QDC following an amendment (with the agreement of both parties), then the contract must be re-priced in accordance with SSCRs.
3. Pricing

The Act and SSCR set out how QDCs and QSCs must be priced, so that single source contract prices are fair and reasonable to both parties.

3.1 How are contracts priced under the SSPF?

Pricing formula

QDCs and QSCs must be priced according to the following formula:

\[
\text{Price} = (\text{Contract Profit Rate} \times \text{Allowable Costs}) + \text{Allowable Costs}
\]

The formula works for all types of contract because ‘allowable costs’ may be:

a) set after costs are incurred and thus based on actual costs; or

b) used to determine a target cost, based on estimated costs; or

c) used to determine a firm or fixed price, based on estimated costs.

3.2 Allowable costs

Allowable cost principles

The Act sets out three principles that determine whether a contract cost is allowable. The cost must be:

- **Appropriate**: the type of cost is appropriate to be recovered through MOD single source contracts; and

- **Attributable**: the cost relates to the MOD single source contract; and

- **Reasonable**: the amount of the cost is fair.

The SSRO is responsible for publishing the statutory guidance on allowable costs, expected to be known as the SSRO Guidance on Allowable Costs (SGACs). These will provide more details on how the concepts of “appropriate”, “attributable” and “reasonable” should be applied.

3.3 What must each party do when pricing a qualifying contract?

<table>
<thead>
<tr>
<th><strong>SUPPLIER</strong></th>
<th><strong>MOD</strong></th>
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</thead>
<tbody>
<tr>
<td>Generates the price estimate, ensuring that assumptions and forecasts used are fit for purpose.</td>
<td>Asks for and checks the validity and accuracy of any assumptions and forecasts that have been shared by the supplier.</td>
</tr>
<tr>
<td>Asks for and checks the validity and accuracy of any assumptions and forecasts the MOD has provided.</td>
<td>Provides the supplier with information materially relevant to setting the price, such as forecast demand.</td>
</tr>
<tr>
<td>Adheres to the pricing principle that allowable costs are appropriate, attributable and reasonable (i.e. in accordance with statutory guidance, unless the parties consider there is insufficient justification to deviate from the guidance).</td>
<td>Verifies that allowable costs are appropriate, attributable and reasonable. Adhere to statutory guidance, unless otherwise agreed.</td>
</tr>
<tr>
<td>Provides information necessary to make negotiated adjustments to the contract profit rate, as described below (e.g. Risk, POCO, CSAs).</td>
<td>Negotiates a contract profit rate in accordance with the methodology set out in law.</td>
</tr>
<tr>
<td>Keeps records relevant to the agreement of price.</td>
<td>Makes appropriate use of the rights to access relevant records of the supplier.</td>
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</table>
If the parties have agreed a price *inconsistent* with the pricing principles (i.e. that the cost is appropriate, attributable and reasonable) then they run a financial risk from a possible future financial determination by the SSRO once they are on contract. Both parties have the right to refer the contract price to the SSRO if they believe the price has been agreed on a basis inconsistent with the pricing principles.

### 3.4 Profit

The starting point of the contract profit rate (CPR) is the baseline profit rate (BPR), which is common across all QDCs and QSCs. Certain adjustments must then be made to the BPR to get to the agreed CPR (noting that sometimes an adjustment may be nil). The adjustments should be applied in the order shown and described below.

### 3.5 How is profit calculated under the SSPF?

**Profit formula**

\[
\text{Baseline Profit Rate (BPR)} \pm \text{Risk adjustment} - \text{POCO adjustment} - \text{SSRO funding adjustment} + \text{incentive adjustment} \pm \text{capital servicing allowances adjustment} = \text{Contract Profit Rate (CPR)}
\]

- **a)** BPR – The BPR will be recommended by the SSRO and will be published each year in the London Gazette no later than 15th March, for use from the following 1st April. It will be reproduced for convenience in the MOD Commercial Toolkit.

- **b)** Risk adjustment- the BPR should be adjusted by an agreed amount (±25% of the BPR) to reflect the risk that a supplier’s actual costs differ from estimated costs, taking account of other mechanisms that mitigate that risk (e.g. contract type). The SSRO will publish statutory guidance to help both parties negotiate this adjustment.

- **c)** Profit on cost once (POCO) – once adjusted for risk, profit will (if necessary) be adjusted to ensure that profit only arises once in relation to a particular element of allowable costs (relating to some subcontracts). The SSRO will publish statutory guidance on the POCO adjustment.

- **d)** SSRO funding adjustment – The cost of running the SSRO (estimated £4m/year) will be split between industry and the MOD. Industry’s contribution will be collected through this mechanism, a minor downward adjustment to the CPR. The amount of the adjustment will be calculated and published annually, in the same way as the BPR.

- **e)** Incentive adjustment – an adjustment may be awarded at SofS’s discretion, to allow a supplier additional profit as a reward for particular performance. This cannot exceed an amount set out in the SSCRs, initially 2%. Cost reduction sharelines agreed as part of a TCIF or similar arrangements are excluded from this 2% cap, which is aimed at performance incentives. The 2% must include all performance incentive payments specified in the contract and is expected to be used sparingly.

- **f)** Capital servicing adjustment – this final adjustment allows suppliers to recover their reasonable costs of capital (whether working or fixed capital) related to qualifying contracts. The framework will retain the current approach, normally agreed by CAAS at a supplier’s business unit level.
3.6 What is a Contract Pricing Statement?

Every QDC and QSC must have a Contract Pricing Statement (CPS) which is submitted to the MOD at or around the time of pricing. If either party makes a referral to the SSRO on the basis that pricing principles were not applied, then the SSRO will need the audit trail for the pricing assumptions. This is made up of:

a) The contract
b) The pricing model that was used to determine the price
c) The CPS which references of all the pricing assumptions that were used to generate the price

The CPS is similar to the current Equality of Information Pricing Statement (or EIPS) with two differences:

a) The content of the CPS will be more tightly defined
b) If the pricing assumptions within a CPS are not agreed (or submitted) prior to the signing of a contract, the supplier must provide a CPS to the MOD unilaterally, within one month of contract signing. If this is not done the MOD may issue a compliance notice, which may lead to a civil penalty.

The CPS and the pricing model submitted must be consistent with the price of the contract, or they will not represent an acceptable submission.

3.7 Cost recovery through rates

The existing programme between supplier business units and MOD CAAS, for the submission, investigation and agreement of recovery rates for use in single source pricing, will continue. The Act and the SSCRs set out new supplier reporting requirements and timescales which should enable a more efficient and timely rates programme.

The supplier has primary responsibility for ensuring that the costs included in rates claims are allowable costs. The MOD has secondary responsibility to ask for, and check, the assumptions and forecasts. Suppliers must also be able to demonstrate that their claims are in accordance with the pricing principles.

3.8 Efficiency targets

One of the main purposes of the new statutory contract and supplier reporting regime is to address the informational disadvantage suffered by MOD in single source pricing. Over time and through detailed analysis, the MOD will build up a library of indirect cost benchmarks, which will be used as part of the rates agreement process. From these benchmarks, MOD will be able to identify indirect costs that are at odds with comparable business units, or historic outturns.

If a supplier’s costs are very different from the norm, MOD will need to understand why. The difference may be legitimate but if after discussion the MOD believes the cause is supplier inefficiency, MOD will seek to agree appropriate efficiency targets with that supplier.

3.9 Contract monitoring

The legislation and supporting statutory guidance is designed to give the MOD and the SSRO visibility of supplier costs and cost drivers once on contract. This supports greater visibility through:

a) standard reports provided by the supplier to both the MOD and the SSRO;
b) a requirement for suppliers to proactively notify the MOD of any material change, or any risk of a change, to either performance, cost or schedule; and
c) audit and open book rights that allow the MOD access to the records relevant to qualifying contracts and suppliers.

Suppliers are able to include the costs of meeting these statutory reporting requirements within the price of qualifying contracts, providing costs are attributable and reasonable.
4. What are the reporting requirements?

4.1 Reports

The DRA and SSCR set out the minimum reporting requirements for qualifying contracts:

Contract Notification Report

Within one month of contract signing, the supplier must provide the MOD and the SSRO with a Contract Notification Report (CNR) – this establishes the contract management baseline and supports the development of benchmark and parametric information. The CNR also confirms that the supplier has submitted the required contract pricing documents (CPS, pricing model and risk register).

To allow comparison across comparable projects, the costs in the CNR will be split in a standard way, known as the Defined Pricing Structure (DPS). The DPS will be in statutory guidance published by the SSRO. It will vary according to the nature of what is being procured.

Contract Reporting Plan

Within a month of contract signing, the supplier must provide a Contract Reporting Plan (CRP) to the MOD and the SSRO. The CRP will set out due dates, format and the DPS to be used in meeting the reporting requirements.

The CRP should be agreed prior to contract signing and should also be reflected as a schedule within the contract. The CRP should only record the statutory reporting requirements, not any bespoke requirements agreed on a contract-by-contract basis.

Quarterly Contract Report

For qualifying contracts over £50m in value, the supplier must submit a Quarterly Contract Report within one month of the end of each calendar quarter. This ensures a regular, timely update on project performance.

Interim Contract Report

The Interim Contract Report (ICR) may be required for contracts under £50m in value, and will be required for contracts over £50m in value. The intention is that the timing of ICR submission should be flexible: for production contracts completed in stages, it may be useful to link the ICRs to the completion of milestones. For low-risk contracts, ICRs may be appropriate at longer time intervals.

Contract Completion Report

A supplier must provide the MOD with a Contract Completion Report (CCR) within six months of contract completion. The report will include much of the same information as the CNR and the ICR, but will also capture final costs and outcomes on schedule, risk and metrics.

Contract Cost Certificate (CCC)

A supplier must provide the MOD with a Contract Cost Certificate (CCC) within 12 months of contract completion, and a CCC may also be requested as required by MOD. A CCC will support the agreement of ascertained costs where necessary for contract payments, or to support Post Costing activities or the agreement of final price adjustments including PEPL.
4.2 Timeline of contract reports

<table>
<thead>
<tr>
<th>Report Type</th>
<th>Frequency</th>
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</thead>
<tbody>
<tr>
<td>CNR</td>
<td>Within 1 month of contract signing</td>
</tr>
<tr>
<td>CRP</td>
<td>Quarterly</td>
</tr>
<tr>
<td>CPS</td>
<td>ICR</td>
</tr>
<tr>
<td>QCR</td>
<td>Annually, or periodically, as required by MOD</td>
</tr>
<tr>
<td>CCR</td>
<td>Within 6 months of contract completion</td>
</tr>
<tr>
<td>CCC</td>
<td>Within 12 months of contract completion</td>
</tr>
</tbody>
</table>

4.3 Proactive notification

Section 26 of the DRA requires contractors to notify the MOD on becoming aware of:

a) the occurrence (or likely occurrence) of an event, or circumstances that are likely to have a material impact in relation to a qualifying contract; or

b) information that is likely to be materially relevant to a qualifying contract.

If a contractor fails to notify the MOD of any of these, and subsequent events brings MOD’s attention to this failure, then the MOD may issue a penalty notice. The supplier may, as with all penalty notices, refer the matter to the SSRO for a determination.

4.4 Are there any open book rights?

The DRA includes a requirement for suppliers to maintain records which are sufficiently up to date and accurate. This enables the MOD to use them for the following purposes:

a) Audit the standard reports (including CPS)

b) Verify that a cost being incurred is an allowable cost

c) Verify the reason for variances between estimated and actual allowable costs

d) Monitor the supplier’s performance of its contractual obligations

e) Determine if a sub contract is/should have been a QSC

The MOD must give the supplier 20 working days’ notice for the examination of records. If the supplier feels that the MOD is being unreasonable in its use of these open book rights, they may refer the matter to the SSRO for a review.

4.5 Protection against excessive profits and losses

Certain contract types may be subject to a final pricing adjustment for protection against excessive profits and losses (PEPL). The adjustment for PEPL is based on comparing the actual profit rate with the Contract Profit Rate (CPR) used in the pricing formula. Excess profit and losses are defined in the SSCR, as are the sharing arrangements (see Regulation 31 – Final Price Adjustment).

An EXCEL based calculator which calculates the PEPL adjustment will be available on the Commercial Toolkit. If the supplier and the MOD disagree on the PEPL adjustment, either party can refer the matter to the SSRO for a determination.
5. Single Source Advisory Team (SSAT)

When issues arise concerning supplier compliance with any aspect of the framework, the matter will be taken up for MOD by its internal Single Source Advisory Team (SSAT), working with the project team who own the contract. The SSAT will be MOD’s first point of contact with the SSRO.

5.1 What are the SSAT’s objectives?

The SSAT has 6 main roles. These are:

a) To coordinate the MOD submission to the SSRO in its periodic reviews of the SSPF;
b) To provide advice and manage referrals;
c) To manage SSPF data;
d) To undertake analysis;
e) To be responsible for engagement and communication; and
f) To manage the SSRO as an External Non Departmental Public Body on behalf of the Secretary of State.

5.2 When can the SSAT issue a compliance notice?

The SSAT has responsibility to manage the compliance and penalties system. There are a number of reasons why the SSAT could issue compliance notice, including:

a) Supplier fails to provide CNR, CRP or CPS within one month of contract signing;
b) Supplier fails to provide QCR within 1 month after the calendar quarter end;
c) Supplier fails to provide ICR within 2 months of the dates specified in the CRP (or annually if not specified for contracts over £50m);
d) Supplier fails to provide CCR within 6 months of contract completion;
e) Supplier fails to provide CCSC within 12 months of contract completion or within 6 months of being requested;
f) Supplier fails to provide any of the supplier reports (relating to rates and other matters);
g) Supplier a knowingly or recklessly misleading report;
h) Supplier fails to notify MOD of material change, to performance, cost, or schedule on a qualifying contract, or materially relevant information; or
i) Supplier fails to comply with a request to examine records, or provide copies or further information or explanation, for the purposes.

Ultimately continued non-compliance may lead to the SSAT issuing the supplier a civil penalty, as enabled by the legislation. There may also be an increased penalty where there is persistent failure. The supplier has a right to appeal to the SSRO on any penalty notice.
6. Single Source Regulations Office (SSRO)

The SSRO will be an arms-length non-departmental public body, whose role is to be an independent expert on MOD single source procurement. The principal aim of the SSRO is: ‘to ensure that good value for money is obtained in government expenditure on qualifying defence contracts, and [contractors] are paid a fair and reasonable price’.

6.1 What is the role of the SSRO?
The SSRO has a number of functions to perform, including:

a) **Keeping legislation under review**
   - Part 2 (on the SSPF) of the DRA, and the Single Source Contract Regulations, within 3 years of the CIF and every 5 years thereafter.

b) **Reviewing the BPR and the adjustments**
   - The SSRO will recommend a BPR, an adjustment for SSRO funding, and market capital servicing rates to the Secretary of State no later than 31st January each year. When the SoS publishes these rates in the London Gazette each year (no later than the 15th March), he/she must publish their reasons if there is any difference between the published rates and the SSRO recommended rates.

c) **Publishing statutory guidance on allowable costs and the Defined Pricing Structure**
   - in the SSRO Guidance on Allowable Costs. The SSRO will also publish statutory guidance on a range of other matters (e.g. profit adjustment, reporting templates).

d) **Recording and monitoring contracts and suppliers subject to the SSCRs**
   - The SSRO will monitor whether contracts are following the SSPR framework. The SSAT (within MOD) will inform the SSRO of new QDCs and QSCs.

e) **Expressing opinions and making determinations**
   - The SSRO must provide an opinion, or determination, where this is specified in the Act or in the Regulations. The SSRO may also give an opinion on any matter related to a qualifying contract, if asked to do so jointly by the MOD and a supplier. The SSRO will publish annually a summary of the opinions and determinations it has made, and why.

f) **Acting as the appeal body for civil penalties**
   - when MOD applies a civil penalty for non-compliance that the supplier disagrees with.

g) **Publishing statutory guidance on the determination of penalty amounts**

h) **Analysis**
   - The SSRO will analyse supplier reports in order to generate information useful to the parties involved in pricing single source defence contracts.
### 7. SUMMARY

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<thead>
<tr>
<th>Area</th>
<th>Element</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transparency</strong></td>
<td>Open book</td>
<td>To provide a general back-stop right to help assure VFM in single-source procurement and to check the new framework is working</td>
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<tr>
<td></td>
<td>Audit rights and referral rights to an independent expert</td>
<td>To put a duty on suppliers to use reasonable and appropriate pricing assumptions</td>
</tr>
<tr>
<td><strong>Pricing</strong></td>
<td>Standard profit</td>
<td>To provide industry with an independently assessed fair return.</td>
</tr>
<tr>
<td></td>
<td>Incentivisation of efficiency</td>
<td>To allow additional profit where it is earned by performance</td>
</tr>
<tr>
<td></td>
<td>Variation of profit with risk (± 2.5%)</td>
<td>To allow additional profit to reflect risk borne by the contractor</td>
</tr>
<tr>
<td></td>
<td>Protection from excessive profits and losses</td>
<td>To provide the MOD with protection in the event of excessive supplier profit, and suppliers protection against excessive losses</td>
</tr>
<tr>
<td></td>
<td>No profit on profit</td>
<td>To ensure suppliers get a fair profit, and not an unwarranted profit achieved due to company structures</td>
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<tr>
<td></td>
<td>Standard list of allowable costs</td>
<td>To ensure both parties negotiate fair prices within a clear and coherent approach and on a level playing field</td>
</tr>
<tr>
<td></td>
<td>Onus of proof</td>
<td>To put a duty on suppliers to demonstrate the costs they claim are reasonable and appropriate for MOD to pay</td>
</tr>
<tr>
<td><strong>Standard contract reports</strong></td>
<td>Benchmark reports at start/end/amendments</td>
<td>To improve price negotiation (and capability planning) by building up a database of defence benchmarks from comparable activities</td>
</tr>
<tr>
<td></td>
<td>Quarterly contract reports</td>
<td>To get timely checks on project health that can be used to support a stronger financial and performance management regime; and so that MOD can negotiate follow-on prices with a good understanding of historic costs</td>
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<tr>
<td></td>
<td>Annual contract reports</td>
<td>To maintain an audit trail of the cost baseline that is directly comparable to the original price</td>
</tr>
<tr>
<td><strong>Standard overhead and supplier-level reports</strong></td>
<td>Annual overhead benchmark reports</td>
<td>To improve overhead negotiation by building up a database of overhead benchmarks</td>
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<tr>
<td></td>
<td>Overhead comparison report</td>
<td>To check the effectiveness of the range of overhead recovery methods we have available</td>
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<td></td>
<td>Long term overhead report</td>
<td>To optimise the industrial capacity we pay for with our long-term military capability requirements</td>
</tr>
<tr>
<td></td>
<td>SME report</td>
<td>To support SMEs down the supply chain</td>
</tr>
<tr>
<td><strong>Compliance regime</strong></td>
<td>Publically naming the supplier</td>
<td>To increase the timeliness and likelihood of adherence to the new regulations</td>
</tr>
<tr>
<td></td>
<td>Financial penalty</td>
<td>.Processing failed</td>
</tr>
</tbody>
</table>