



***Risk Analysis in Single Source Defence  
Acquisition Programmes***

**Ian McPherson OBE BEM FCIPS**

**Director of Compliance and Investigations**

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***Assuring value, building confidence***

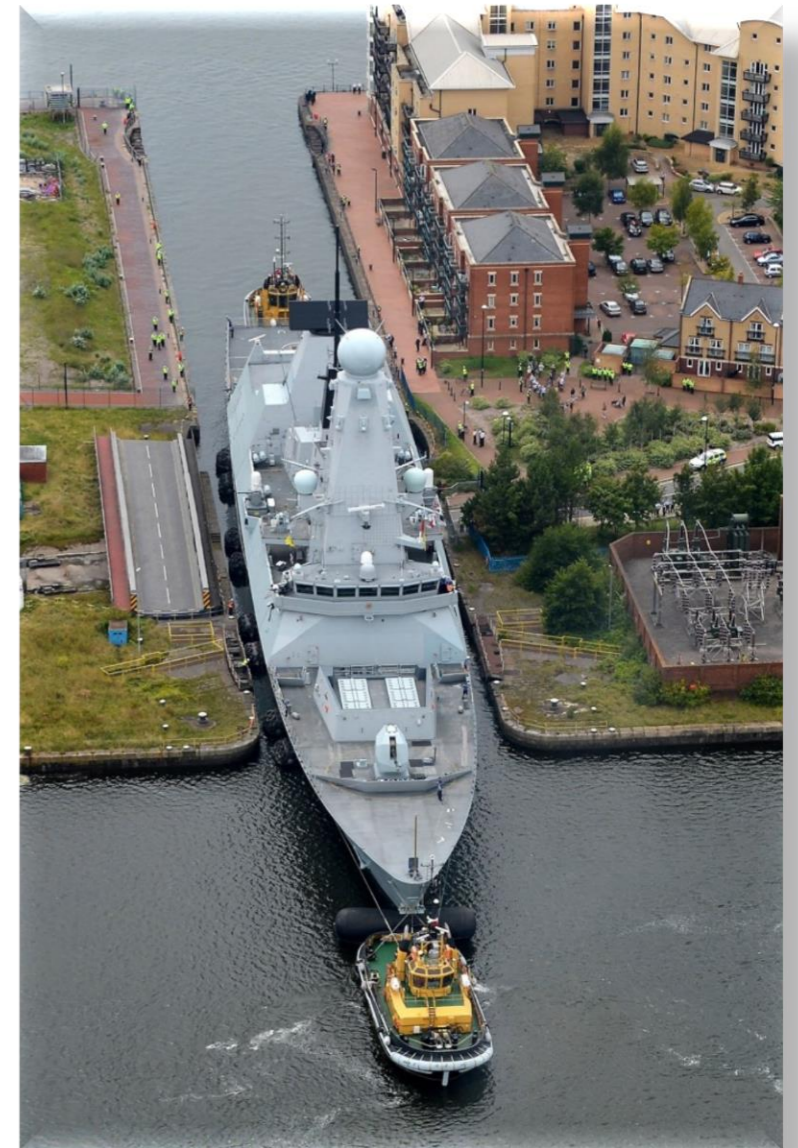
## Today I will cover:

- The SSRO's aims
- The history to SSRO's formation
- The role and remit of the SSRO
- The data we collect
- What we do with this data
- Perspectives on the regime
- Benefits of the regime
- Lessons learned from 2 years of the regime



## The SSRO is the expert guardian and adjudicator of the single source procurement framework

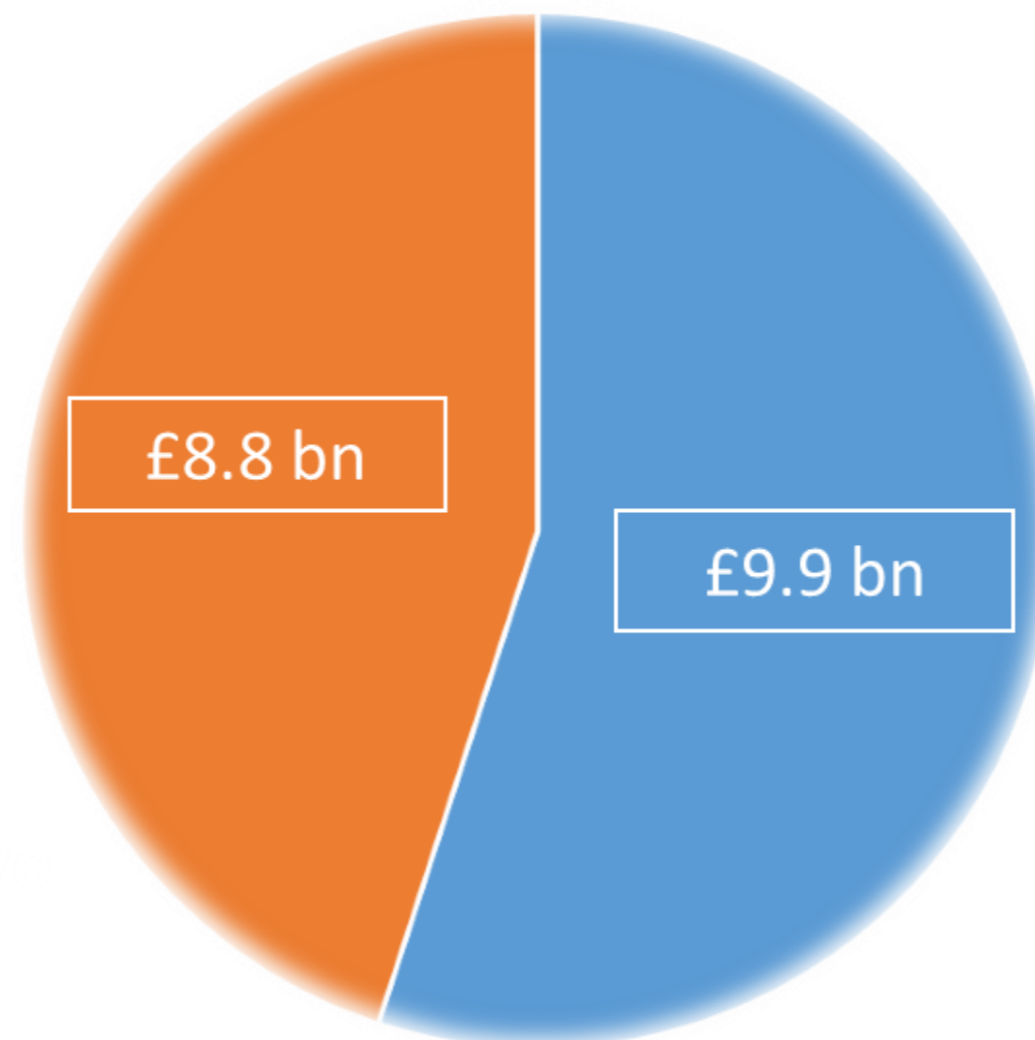
- Independent regulator of the UK government's procurement of 'single source' military equipment and services.
- Our principle statutory aims are that:
  1. Good value for money is obtained in government expenditure on qualifying defence contracts.
  2. Persons who are parties to qualifying defence contracts are paid a fair and reasonable price under those contracts.



## Spend on non-competitive contracts is £8.8bn, £3.1 bn placed in new non-competitive contracts in 2015/16

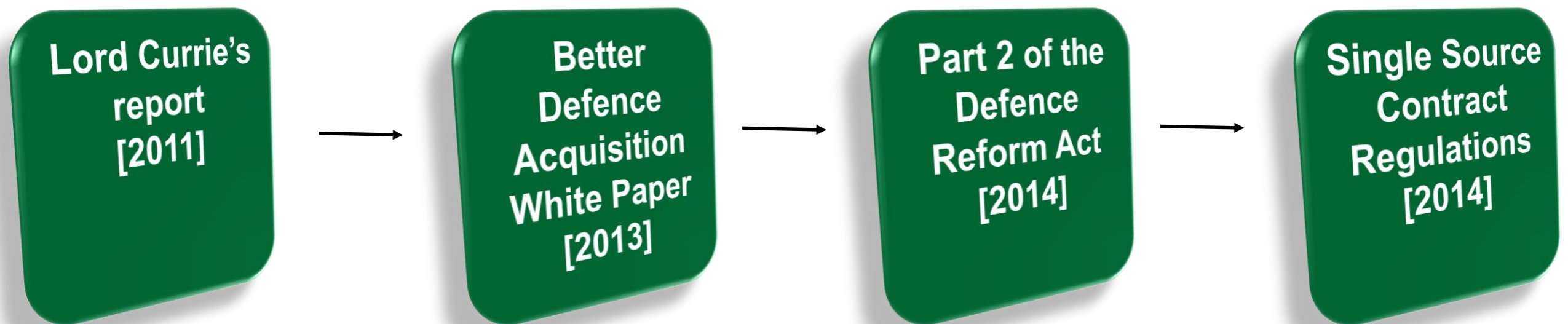
Direct MOD payments paid through competitive and non-competitive contracts in 2015/16

**Non- competitive  
contracts**

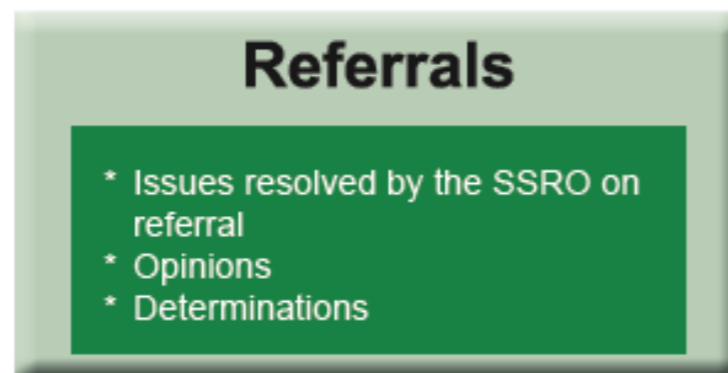
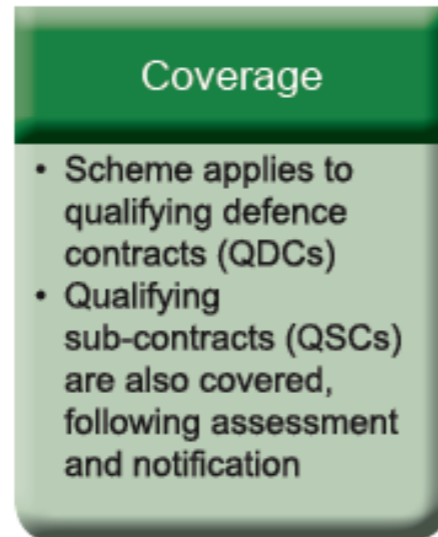


**Competitive  
contracts**

**The SSRO was formed following Lord Currie's *'Review into single-source military equipment contracts'***



## The SSRO: what we do



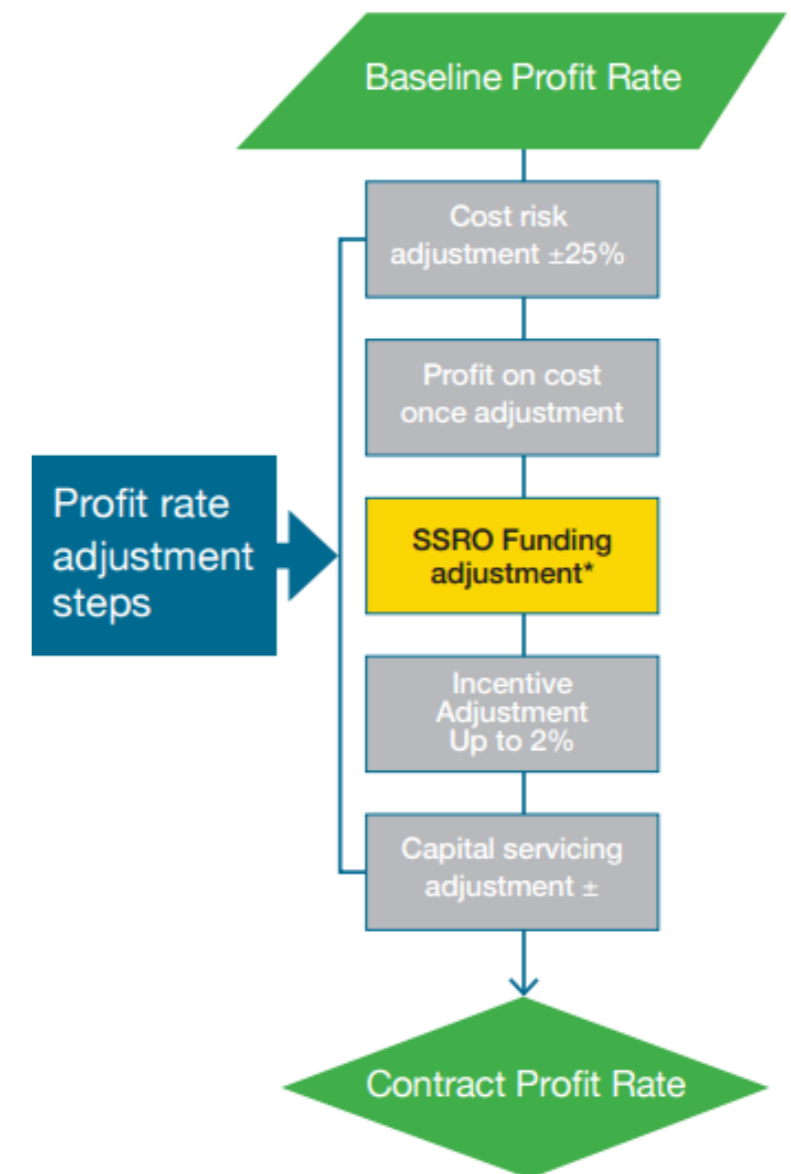
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## The Single Source Contract Regulations 2014 apply to the following contracts

- All single source contracts worth £5 million or more
- All single source sub-contracts worth £25 million or more
- Some single source contracts are automatically excluded:
  - agreements with a foreign government
  - contracts for the acquisition or management of land or buildings
  - activities relating to intelligence matters
- SofS can exceptionally exempt a particular contract
- It can apply to existing contracts on amendment, but only where both parties consent, and this triggers a re-price

## The SSRO each year recommends the Baseline Profit Rate, and adjustments, paid to industry

- The SSRO annually reviews the baseline profit rate, which must be used when calculating the contract profit rate of QDCs
- The SSRO makes a recommendation to the Secretary of State for Defence on whether the rate should be changed
- Current rate: 8.95 per cent
- The SSRO is developing multiple profit rates for 2017/18



\* Not applicable until 2017



## All costs claimed must be ‘Allowable’ – following our guidance on *Allowable Costs*



- A legal requirement to have regard to guidance in determining whether costs are *Allowable* under a qualifying defence contract and qualifying sub-contract
- Principles, rather than rules, based

## Costs incurred in a contract must be Allowable

- Allowable Costs are those incurred in a contract that are billed to the customer -they are the key driver of the contract price
- Costs incurred in a contract must be **'appropriate, attributable, and reasonable** in the circumstances'
- Our guidance ensures the customer only pays costs that are in direct relation to the contract
- Examples of non-Allowable Costs we have seen include: marketing and sales costs; faulty workmanship; and entertainment

- Rework
- Sunk costs
- Insurances
- Impairment of goodwill and amortisation
- Risk
- Employee benefits

Examples of **Allowable** and **non-Allowable** Costs

- Faulty workmanship
- Contingency funding
- Sales and marketing costs
- Civil penalties and fines
- Entertainment
- Capital costs

## The SSRO analyses QDC data, and from its analysis produces reports and reviews its guidance



### **QDC cycle**

Analysis includes:

- Supplier portfolio analysis
- Defence benchmarks and parametrics
- Annual Compliance Report
- Other analysis as requested by the Secretary of State for Defence

# One way we look to use our data is through publication of statistical bulletins

The statistical bulletins have focused on:

- Profit rates
- Planned contract duration
- Contract pricing methods
- Capital Servicing adjustments
- International aspects of QDCs

Check [gov.uk/ssro](http://gov.uk/ssro) for updates

**SSRO** Profit rates reported in Qualifying Defence Contracts 2015/16  
Single Source Regulations Office  
25 May 2016

**SSRO** Planned contract duration reported in Qualifying Defence Contracts 2015/16  
Single Source Regulations Office  
5 July 2016

**SSRO** Contract pricing methods reported in Qualifying Defence Contracts 2015/16  
Single Source Regulations Office  
13 July 2016

**Figure 1: Total value of QDCs/QSCs by pricing type, 2015/16**

Pricing Type	Value (£bn)	Percentage
Estimate-based	£5.65bn	51%
Target	£4.5bn	41%
Fixed	£1.1bn	10%
Cost-plus	£1.9bn	17%
Volume-driven	£7m	0.07%

**Key points**

- The majority of contracts agreed in 2015/16, 25 out of 34, use the firm pricing method, of which 15 QDCs/QSCs use firm pricing only and 10 use firm pricing in combination with another pricing method. Firm pricing represents 7 per cent (£0.8 billion) of the total QDC/QSC value in 2015/16.
- The highest proportion (of total value) of QDCs/QSCs in 2015/16 used the estimate-based fee pricing method, at 51 per cent (£5.6 billion), and the target pricing method, at 41 per cent (£4.5 billion).
- The profit earned on a QDC can be influenced by the pricing method used. For example, for firm and estimate-based fee pricing methods the profit is based on the costs estimated at the start of the contract.

## We have published a report drawing together views on single source procurement – as it was, is, and might be

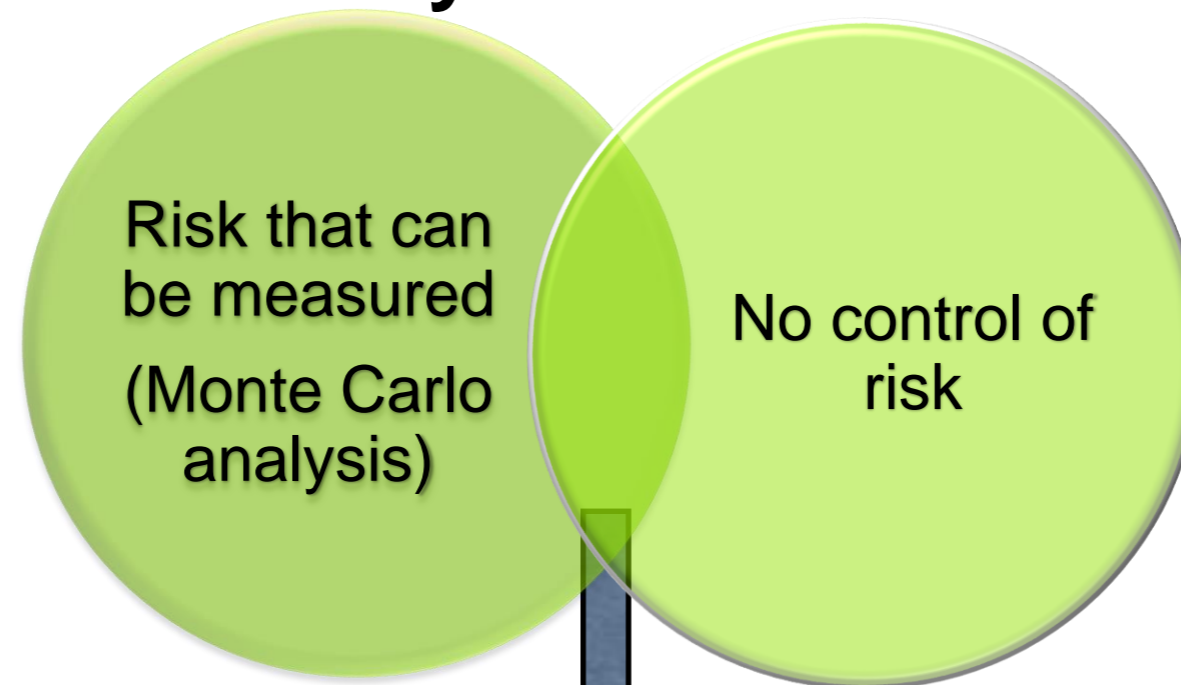
*Perspectives on non-competitive defence spending* invited views from academics, defence experts, accountants and former members of the military.

The report found that single source procurement can deliver savings if:

- the objectives are clear
- contracts are managed in the right way
- the right culture exists between the customer and supplier



**The framework provides for pricing risk in contracts, and there are a number of ways this is done**

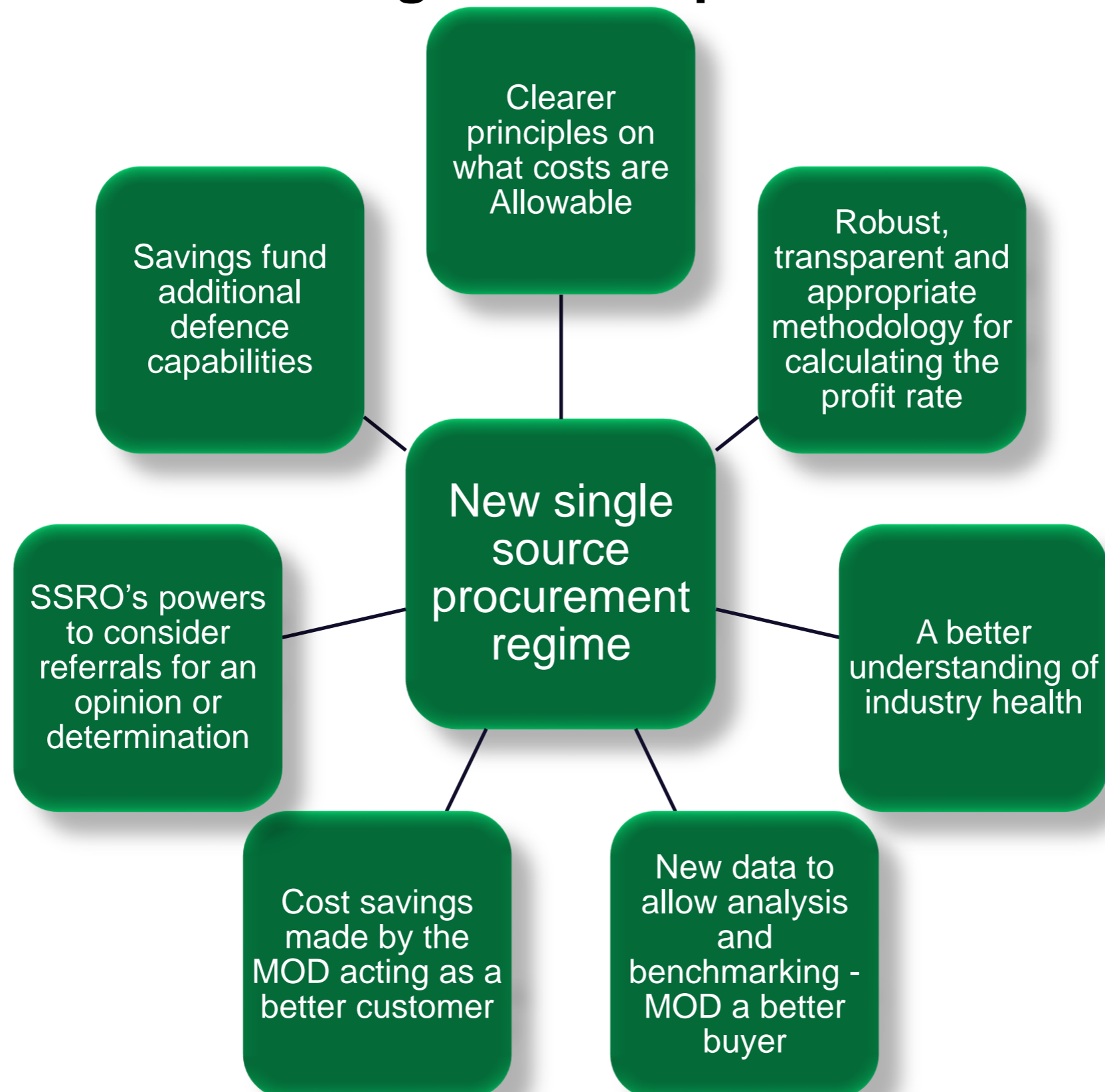


**SSRO  
Guidance**



**How can this area be managed? Partially controllable?**

## Benefits from the single source procurement regime



## Granularity of data, and knowing which bits are important

With data analysis, you should look at what's important, rather than the largest spend



1. Engine
2. Gearbox

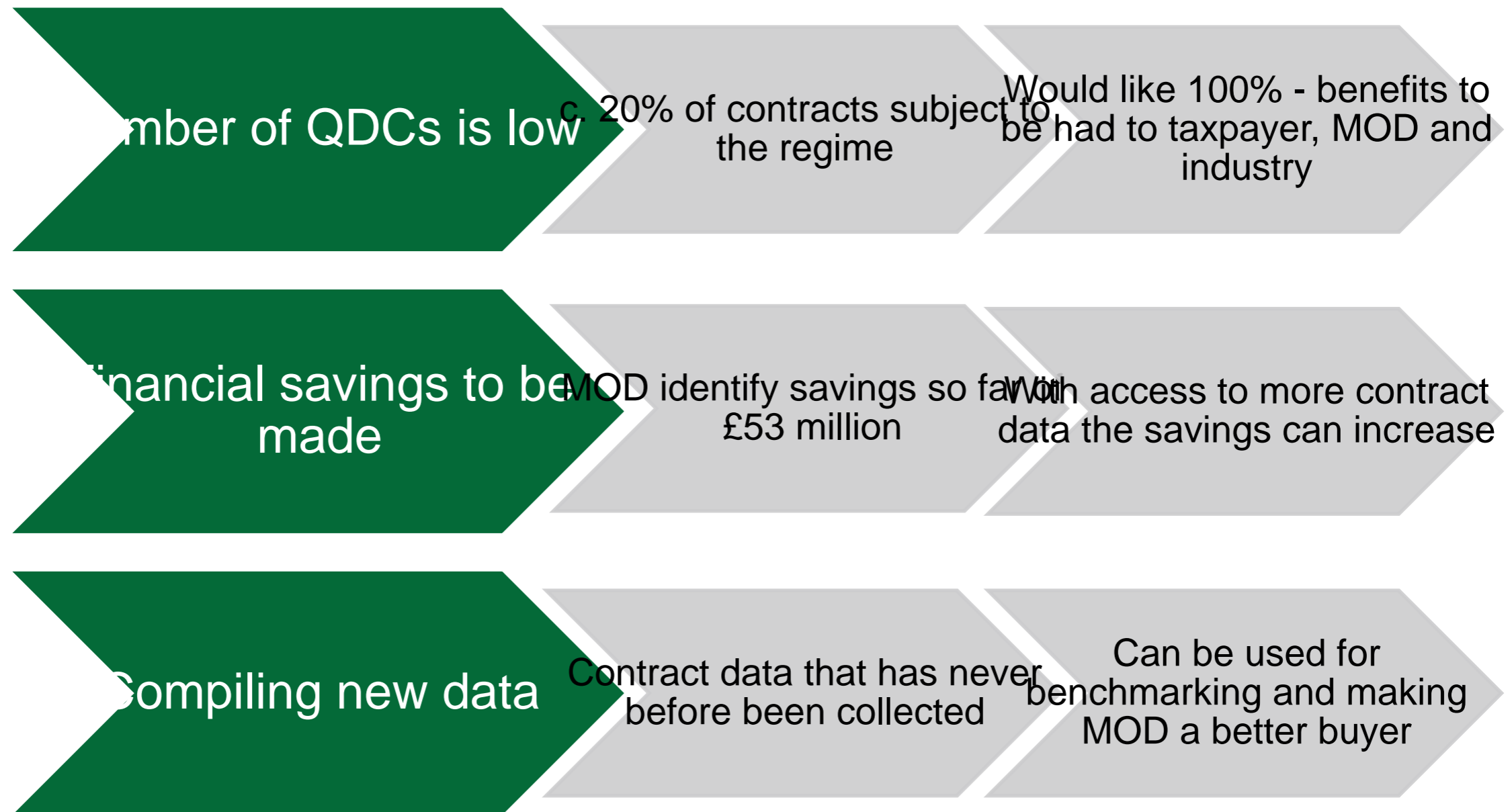


1. Gearbox
2. Engine

Focus on the data that will make the customer smarter



## Lessons learned from 2 years of the single source regime...



# Any questions?

