



SSRO

Single Source
Regulations Office

**Defined Pricing Structure (DPS)
Guidance**

SSRO Principles

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Defined Pricing Structure (DPS)

1. Background

- 1.1 Regulation 22(9) of the Single Source Contract Regulations (the Regulations) states that “In preparing a report, a contractor must have regard to any relevant guidance issued by the SSRO.”
- 1.2 Regulation 22(7) states that where a regulation requires a breakdown of costs by defined pricing structure (DPS), it must be presented as a list of cost categories describing key components of the deliverables to be provided under the relevant contract. The Contract Notification Report; Interim Contract Report and Contract Completion Report include a requirement for costs to be split by the DPS.
- 1.3 This guidance sets out the principles to be followed by the contractor when completing the DPS for a qualifying defence contract (QDC) or qualifying sub-contract (QSC). The DPS should be agreed between the MOD and contractor during the contract negotiations and the structure included in the Contract Reporting Plan.

2. Overall approach

- 2.1 These principles present the direction for effectively preparing, understanding and presenting a DPS.

- 2.2 The primary purpose of these principles is to achieve a consistent application of the DPS.

- 2.3 The objective for the DPS is to establish a single, centrally available, comprehensive data set to determine relationships between costs and outputs, and record the estimated and outturn costs, for every QDC and QSC. This will enable future analysis such as benchmarking, while assisting effective contract monitoring without being burdensome.

3. Structure of the DPS

- 3.1 The DPS is a product or service-orientated hierarchy. The goal is to develop a DPS that defines the logical relationship among all components to a specific level that does not constrain the contractor's ability to define or manage the programme or resources to deliver that programme.

- 3.2 The SSRO requires the DPS to be articulated in no more than four levels:

- (1) Level 1 is the entire system and/or programme, a programme element, project, sub programme or service;
- (2) Level 2 are the major elements subordinate to the Level 1 system / programme. These

- major elements include hardware and software elements or key services;
- (3) Level 3 are elements subordinate to Level 2 and include hardware, software and services; and
 - (4) Level 4 elements follow the same process of breakdown for those subordinate to Level 3 and represent a further definition of the hardware, software and services. Level 4 will cover all elements that are not included in Levels 1-3.¹
- 3.3 The European Common Procurement Vocabulary (EUCPV) and United Nations Standard Products and Services Code (UNSPSC) are mapped to the DPS to assist contractors in apportioning costs at the relevant levels. It will also allow cross mapping of items. The use of these codes is not mandatory at this time and is merely articulated to aid mapping. If a code is used, these should be selected from the drop down boxes within the DPS.
- 3.4 The EUCPV is the European Standard of common procurement vocabulary on a granular level used as a descriptor in all competitive tenders under EU legislation. The UNSPSC is a hierarchical convention used to classify all products and services owned by the United Nations Development Programme. It is a standard process for the MOD and contractors to apply common procurement vocabulary (CPV) codes.
- 3.5 The SSRO will produce a template DPS for all key equipment and service/system types, not for each contract. These templates will only need to be supplied to the SSRO
- within three reports –the Contract Notification Report, Interim Contract Report and Contract Completion Report. The DPS will only be edited, in agreement with the MOD and the contractor and follow the principles established in this guidance, to make the DPS for the product or service contracted for.
- 3.6 The Level 1 of the DPS will include the following:
- surface ships;
 - submarines;
 - drones (unmanned aerial vehicles);
 - rotary wing aircrafts;
 - fixed wing aircrafts;
 - track vehicles (“A” class vehicles);
 - surface vehicles (“B” class vehicles);
 - wheeled armoured vehicles (armoured vehicles which are not in “A” class);
 - missile systems;
 - specialist equipment;
 - weapon systems;
 - service contracts
 - radar and communications;
 - ordnance;
 - unmanned marine systems;
 - IT systems.
4. **Metrics**
- 4.1 The Regulations set a requirement to include a list of output metrics that will be used to describe deliverables. Metrics have been assigned to the relevant DPS category where applicable. Contractors should provide additional metrics within the DPS where appropriate.
- 4.2 Examples of metrics include speed, weight and size and are tailored to be applicable to the relevant DPS template.

¹ If the MOD desire additional granularity beyond level 4, this may only be applied with the agreement of the relevant contractor

5. Supplementary information

5.1 In addition to the DPS template the following information is requested to be submitted with the DPS:

- (1) mapping documents from the work breakdown structure (WBS) to programme management costs (if applicable) and to the DPS; and
- (2) the method of apportionment of costs.

6. Principles of DPS

General Approach

6.1 Contractors and the MOD must have regard to the following approach and principles when assigning costs to the relevant DPS.

Use the appropriate DPS template

6.2 The SSRO will develop 16 DPS templates as listed above. Included within the DPS template is guidance on how to complete the template and how to apply the EUCPV codes and UNSPSC codes to assist in apportioning costs.

6.3 The DPS templates are required to be followed to allow for the objective of the DPS to be achieved. The templates are to be followed and completed as fully as possible. However, we do not expect every line of the template DPS to be completed if it is not applicable. Furthermore, not all four levels will need to be completed for all contracts.

6.4 In addition, where a contractor considers a new line item is required to better suit the product or service procured, they should use the “other” category at levels 2 - 4. Any “other” categories used must be agreed with the MOD and provided to the SSRO through the

contract reports. Use of the “other” category must not account for more than 5 per cent of the total cost, unless agreed with the MOD and contractor.

6.5 Use of the “other” category is to be used in the following circumstances:

- (1) when there is no appropriate description available within the DPS;
- (2) for any contingent cost included in the contract; or
- (3) where a small proportion of costs would be difficult to apportion to categories listed in the DPS.

Cost Assignment

6.6 A consistent approach must be used when apportioning costs to the DPS. Costs must agree to the total contract value excluding profit. EUCPV codes and UNSPSC can be used to assist in the apportionment of these costs. The EUCPV codes and UNSPSC codes will be mapped to each DPS line.

6.7 The DPS, being a breakdown of the total contract value excluding profit, must include all indirect as well as direct costs.

Accuracy

6.8 The DPS has been constructed so that each level of decomposition contains a breakdown of the cost at the parent level. Level 1 of the DPS must total 100 per cent of the contract value excluding profit and the breakdown of each subsequent level must total the preceding level.

6.9 The following diagram is an example of the breakdown of costs at each level and how these must total the preceding level.

Level 1	Level 2	Level 3	Level 4
Contract Value £220m Profit = £20m Level 1 = £200m	£100m	£35m	£10m
			£5m
			£20m
		£10m	£1m
		£9m	
		£55m	£5m
		£40m	
		£10m	
	£20m	£5m	£5m
			£0.5m
			£14.5m
	£10m	£2m	£2m
		£8m	£8m
	£70m	£20m	£4m
			£16m
£50m		£18m	
		£3m	
	£29m		

6.10 The contract costs or programme management costs can be used for mapping. If programme management costs are used a mapping document that links back to the contract cost must be provided. Where costs can be mapped directly, these costs should be reported.

6.11 Where the costs of items cannot be mapped directly, they need to be either estimated or a pro rata value used. The method of apportionment must be provided and comments included in the comments box on the DPS template.

6.12 All reasonable efforts should be made to include cost data accurately in proportion to the

contract value or provided at least to the nearest £10,000. Where this is not possible, the cost assignment must be agreed with the MOD, with explanation details provided to the SSRO in the contract reports and DPS template.

6.13 All levels in the DPS must add up to the total of the previous level as illustrated in the table above.

Forecast and estimated costs

6.14 Included in the Interim Contract Report is the requirement to provide actual and forecast DPS information.

6.15 When mapping forecast costs, the level of accuracy that is used for forecasts within the business, and

the applicable Work Breakdown Structure, is to be applied. Details of forecast assumptions must be provided.

- 6.16 When updating forecast costs with actuals, material reasons of deviations must be documented in the contract report templates (see User Guide for Interim Contract Reports).

Change control

- 6.17 If an amendment to the contract is made, which subsequently alters the DPS, any amendments to the DPS will be required to be agreed with the MOD. Any changes will be required to be highlighted in subsequent reports; earlier submitted reports will not need to be amended and re-submitted.
- 6.18 DPS templates must not be adjusted without consultation, and amendments will only be made when changes comply with this guidance. The reports must highlight that changes have been made to the DPS structure or cost apportionment and why.

Length of the DPS

- 6.19 The required length of the DPS will vary depending on the contract value. As not all categories or levels need to be completed for each contract, the predicted length of the DPS is as follows:

Contract Value	Length of DPS
Under £10m	10 – 20 rows
Under £100m	30 – 60 rows
Over £100m	60 – 100 rows

