



Ministry
of Defence

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20 January 2016

Dear Mr Newman,

Following your meeting on Monday evening with the Minister for Defence Procurement, I am writing to issue you with the following guidance under Part 2, Section 19(3) (b) of the Defence Reform Act:

For financial year 2016/2017, the methodology used to determine contract profit rates for UK single source government defence contracts should be such that it would result in the setting of a single baseline profit rate.

I am issuing this guidance because while the Department supports the principle that multiple baseline profit rates better reflect the risk and reward balance in defence single source contracts, we require more time to understand the implications of the proposal and to make any necessary changes to the regulations in line with the planned 2017 review.

I am content for you to make both the fact and content of this letter public.

THE RT HON MICHAEL FALLON MP

Jeremy Newman
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