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# International aspects of qualifying defence contracts 2015/16

7 September 2016

Defence suppliers are required by Regulation 22 of the Single Source Contract Regulations 2014 to submit reports to the Single Source Regulations Office about qualifying defence contracts (QDCs) and qualifying sub-contracts (QSCs). The types of contract reports and the data to be provided in each are prescribed in Part 5 of the Regulations.

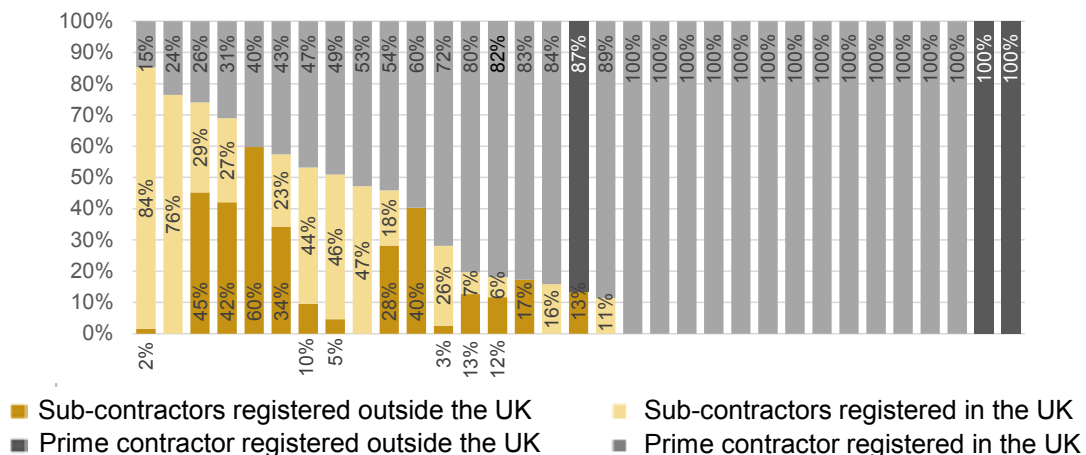
This bulletin presents analysis of the companies that the Ministry of Defence (the MOD) has contracted with, either through QDCs, QSCs, or through their sub-contractors, and whether they are registered in or outside the UK. Analysis on the use of any foreign currencies reported in QDCs and QSCs is also included. The data used is as reported in the contract notification reports or quarterly contract reports for 34 QDCs/QSCs entered into within the period 1 April 2015 to 31 March 2016.

## Key points

- Of the 33 QDCs/QSCs analysed, 30 were contracted to companies registered in the UK (totalling £10.6 billion), whilst three were contracted to companies registered outside the UK, with a total contract value of £31 million.
- Looking at the £1.8 billion of reported sub-contracts, 91 per cent are with companies registered in the UK (£1.7 billion across 81 sub-contracts), whilst nine per cent (£150 million across 30 sub-contracts) are with companies not registered in the UK.
- When looking at the ultimate parent companies of these prime contractors, 20 QDCs/QSCs, with a value of £10.1 billion, are with suppliers whose ultimate parent company is registered in the UK. The remaining 13 QDCs/QSCs, with a value of around £481 million, are with prime contractors whose ultimate parent company is registered outside the UK.
- There were 54 sub-contracts with suppliers whose ultimate parent companies are registered in the UK (£1.2 billion), and 57 sub-contracts (£608 million), with suppliers whose ultimate parent companies are not registered in the UK.
- Foreign currencies are rarely used in reported payments within QDCs/QSCs. The majority of significant payments to be made by the MOD for 33 QDCs/QSCs are in pounds sterling, with 99.9 per cent of reported payments in sterling and 0.1 per cent in other currencies.

## Registered country of companies involved in QDCs/QSCs

**Figure 1: Contract and sub-contract value attributed to companies registered in/outside the UK, in 33 individual QDCs/QSCs 2015/16**



Analysis of the prime and sub-contracting companies was carried out to determine where companies were registered. Figure 1 above shows the proportion of each QDC/QSC contract value that is attributed to sub-contractors and the prime contractor, and whether they are registered in the UK or not.

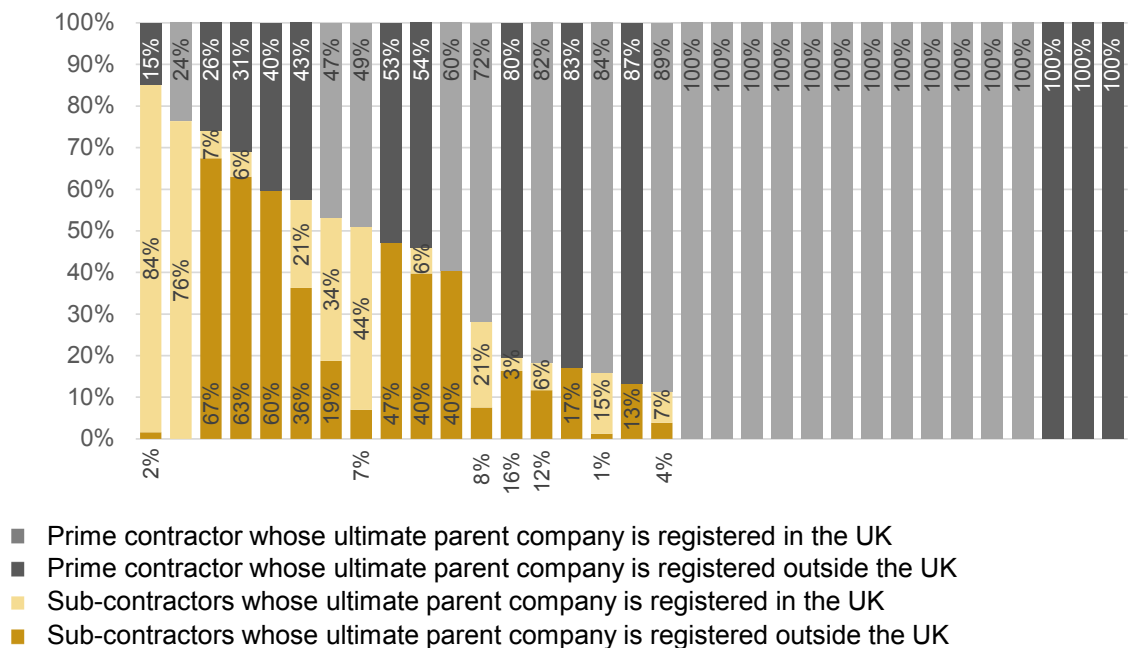
There are 30<sup>1</sup> QDCs/QSCs with prime contractors registered in the UK, with a total contract value of around £10.6 billion. Three QDCs/QSCs are between the MOD and prime contractors registered outside the UK, with a total value of £31 million. Of the £1.8 billion total value of reported sub-contracts (only the 20 highest value sub-contracts greater than £1 million in value are required to be reported), around £1.7 billion (81 sub-contracts) was attributed to companies registered in the UK, across 14 QDCs/QSCs. There was £150 million (30 sub-contracts) attributed to companies registered outside of the UK, also across 14 QDCs/QSCs.

Analysis was also undertaken to see whether the prime and sub-contractors' ultimate parent company was registered in a different location to the supplier. Figure 2 shows the proportion of each QDC/QSC that is attributed to prime and sub-contractors whose ultimate parent (defined as the topmost responsible entity within the corporate hierarchy, where one of its subsidiaries has 50.01 per cent or greater control of the company in question) is registered in the UK or not.

Looking at the QDCs/QSCs themselves, 20 of the 33 QDCs/QSCs analysed are with prime contractors whose ultimate parent company is registered in the UK, with the remaining 13 QDCs/QSCs being with prime contractors whose ultimate parent company is registered outside the UK. By value, QDCs/QSCs with prime contractors whose ultimate parent company is registered in the UK account for 95 per cent of the total contract value (£10.1 billion of the total £10.6 billion total contract value). Those whose ultimate parent company not registered in the UK only account for around 5 per cent of the total contract value (£481 million).

Of the 111 sub-contracts, around half (54 sub-contracts) are with companies whose ultimate parent company is registered in the UK. However, these contracts represent two thirds (£1.2 billion) of the total sub-contract value, whilst a third (£0.6 billion) are to organisations whose ultimate parent company is not registered in the UK (57 sub-contracts).

**Figure 2: Contract and sub-contract value attributed to companies whose ultimate parent companies are registered in/outside the UK, in 33 individual QDCs/QSCs 2015/16**



1 One QDC/QSC was excluded from the analysis due to data quality issues.

## Foreign currencies

Regulation 22(8) states that “except where otherwise provided ... any reference to money in a report must be expressed in sterling”. The regulations only specifically provide for significant payments from the MOD to be entered in currencies other than sterling. Whilst a value may be *expressed* in sterling, this does not necessarily mean the contract will be *paid* in sterling.

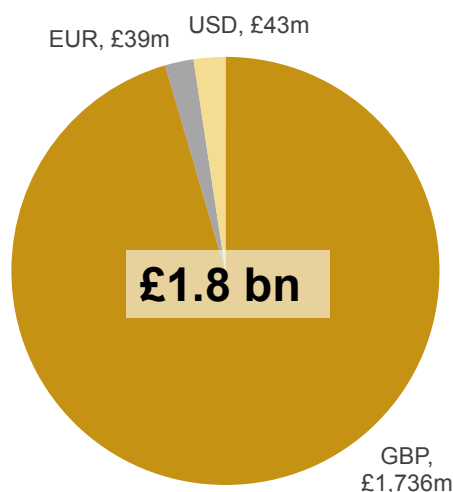
Since elements of contracts can be priced in currencies other than pounds sterling, this may introduce additional risk into contracts through fluctuations in exchange rates causing prices to vary and it is the MOD’s policy to contract in pounds sterling wherever possible. The MOD carries the risk of exchange rate fluctuation when payments to the supplier are in a foreign currency, whereas sub-contracts are paid by the prime contractor, so the contractor bears the risk of any exchange rate fluctuations (unless it passes through to the MOD in the pricing of the prime contract).

Analysis of the reported significant payments (greater than £100,000 or 1 per cent of the contract value) made by the MOD to suppliers of QDCs/QSCs for 33<sup>2</sup> QDCs shows that out of the total reported payments the vast majority, 99.9 per cent, are in sterling, with 0.1 per cent in other currencies. Out of 33 QDCs/QSCs, 30 reported all payments exclusively in sterling. Where significant payments were reported in euros, these were with companies registered in the UK, though their QDCs/QSCs involved sub-contracting with companies not registered in the UK.

Figure 3 shows the percentage of reported sub-contracts broken down by currency for 19 QDCs/QSCs which reported at least one sub-contract of over £1 million in value. Over 95 per cent of the total sub-contract value is reported as payable in sterling. When looking at the number of sub-contracts, 95 of the total 111 reported sub-contracts are reported in sterling, eight in euros, and eight in US dollars.

As mentioned, only the significant payments are provided by the Regulations to be entered in other currencies. The reports however do give the ability for contractors to supply information in other currencies, for example relating to sub-contract value. The specific reference to sterling within the regulations could be influencing the low proportions of other currencies seen in these areas, as shown below. As such the use of foreign currencies in the QDCs/QSCs may be underestimated, and the currency data may not reflect the location of a prime or sub-contracting company, or whether any currency exchange takes place.

**Figure 3: Sub-contract value broken down by currency, 2015/16**



2 One QDC was excluded from the analysis due to data quality issues.

## Data sources and methodology

The data in this report is sourced from either the contract notification report or contract pricing statement, which suppliers are required to submit to the SSRO within one month of the initial reporting date for a contract (usually the date the contract is entered into, unless it becomes a QDC/QSC by amendment), or the quarterly contract report, which is required from QDCs/QSCs with a contract value of £50 million or more within one month of the end of each calendar quarter. The templates and user guides for all of these reports are available on the SSRO's website<sup>3</sup>. Data from these reports are collated in the Defence Contract Analysis and Reporting System (DefCARS).

Only QDCs/QSCs which reported a time of agreement before 1 April 2016 have been included in this release, as notified to the SSRO by the Ministry of Defence, separate to the submitted contract notification reports. Some figures may have changed between this release and previous statistical bulletins as suppliers have submitted new reports with corrected or updated data. The data was extracted from the DefCARS database on 20 July 2016, any reports received after this have not been included in the analysis.

Suppliers are required to submit the expected value of the contract value and sub-contracts agreed for pricing purposes, including any options or incentive payments, which may not reflect the actual value at the end of the contract. Only the highest value 20 sub-contracts with a value over £1 million need to be reported to the SSRO, although some suppliers provide details of sub-contracts below £1 million.

All analysis looking at the proportion of currencies used in QDCs/QSCs have first been converted to sterling for comparable analysis. Where suppliers have entered monetary values in currencies other than sterling, we have used the exchange rate published by the Bank of England<sup>4</sup> as of the first day of the month in which a report was first submitted for that QDC/QSC.

To support analysis of the amount of contracting with non-UK companies, Bureau Van Dijk's Orbis database was used to search for the sub-contractors reported within the QDC reports. The majority of sub-contractors were found within the database, and their country of registration was available, but some suppliers did not provide specific enough information to identify the exact business unit the sub-contracts were with, although the corporate group it belongs to could be identified. Where this occurred, the registered country of the corporate group's ultimate parent company was used in its place, which may in cases be different to the registered country of the subsidiaries. The ultimate parent company is defined as the topmost entity within the corporate hierarchy, owning a subsidiary that controls a majority (greater than 50.01 per cent) of voting rights of the company in question. Where a company has no single entity with a controlling majority, the company itself is considered the ultimate parent company of the corporate group.

The contract values reported are those used for contract pricing purposes, and may not reflect the final value of the contract once it is completed. All figures are provisional, and may be updated in future statistical releases. Due to the commercial sensitivity of this data, the SSRO does not release any information that will enable identification of individual contracts or suppliers included within the analysis. For more information on the SSRO's handling of commercially sensitive information, see the SSRO's statement on its website<sup>5</sup>.

## Further information

The SSRO welcomes any queries or feedback you may have on this statistical release. If you would like to get in touch, please email us at [helpdesk@ssro.gov.uk](mailto:helpdesk@ssro.gov.uk).

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<sup>3</sup> <https://www.gov.uk/government/collections/qualifying-defence-contracts-reporting-templates-and-user-guides>

<sup>4</sup> <http://www.bankofengland.co.uk/boeapps/iadb/Rates.asp?Travel=NlxlRx&into=GBP>

<sup>5</sup> <https://www.gov.uk/government/news/handling-commercially-sensitive-information>