SSRO

Single Source
Regulations Office

Glossary of terms used in report templates

Contract reports (including contract pricing statement)

Glossary of terms

1. Contract reports

This glossary of terms is provided as a guide to assist contractors filling out the required reports for a qualifying defence contract or qualifying sub-contract. It is not intended to be a substitute for legal definitions and, where applicable, references to the Defence Reform Act 2014 ("DRA 2014") and the Single Source Contract Regulations 2014 ("SSCR 2014") are provided.

Term	Acronym	Definition
Allowable costs	AC	The costs included in the pricing of a qualifying defence contract or qualifying sub-contract as set out in Section 15 of the DRA 2014. Such costs must meet the criteria of being 'appropriate', 'attributable to the contract' and 'reasonable in the circumstances'. For further information please refer to statutory guidance on allowable costs. s.20, DRA 2014.
Attributable profit		Attributable profit refers to the profit charged on the goods, work or services carried out by a group sub-contractor with a group sub-contract, if applicable, for the purpose of delivering a qualifying contract. reg.12(7) & (8), SSCR 2014
Baseline profit rate	BPR	The baseline profit rate is published by the Secretary of State in the London Gazette for each financial year, no later than 15 March in the preceding financial year. s.19(1) & (4) DRA 2014; reg. 11(2), SSCR 2014.
Calendar quarter		A calendar quarter under the DRA 2014means any of the following periods: - 1 January to 31 March - 1 April to 30 June; - 1 July to 30 September; and - 1 October to 31 December.
Capital servicing adjustment	CSA	The capital servicing adjustment (CSA) is step 6 in calculating the contract profit rate (CPR) and ensures a contractor receives an appropriate return on the fixed capital (e.g. buildings, plant, equipment etc.) and working capital (e.g. inventory, cash flow) employed to deliver a qualifying defence contract. For further information please refer to statutory guidance on adjustments to the baseline profit rate. s.17(2), DRA 2014; reg.11(7), SSCR 2014
Contract profit rate	CPR	The contract profit rate (CPR) is a six step calculation that must be calculated by taking the following six steps: CPR = baseline profit rate (BPR) +/- cost risk adjustment - profit on cost once (POCO) adjustment - SSRO funding adjustment + incentive adjustment +/- capital servicing adjustment (CSA) For further information please refer to statutory guidance on adjustments to the baseline profit rate. s.17(3), DRA 2014; reg.11(1), SSCR 2014
Cost plus pricing		Cost-plus pricing is one of the six regulated pricing methods permitted under the DRA 2014. Under the cost-plus pricing method, the allowable costs are the actual allowable costs determined during the contract or after the contract completion date. reg 10(6), SSCR 2014

Cost recovery base		Is the unit of measure to which a cost recovery rate is applied in order to calculate a cost under a contract. reg. 2(1), SSCR 2014
Cost recovery rate		Is the rate calculated for a business unit that is used to determine a cost payable under a contract, being the cost per unit of a cost recovery base that is then multiplied by the quantum of that cost recovery base to determine the cost. reg. 2(1), SSCR 2014
Cost risk adjustment		The cost risk adjustment is second step in calculating the contract profit rate (CPR). It is an adjustment to the baseline profit rate so as to reflect the level of risk in a specific contract i.e. the risk that a supplier's actual allowable costs may differ from the estimated costs used when pricing the contract. The maximum allowed range of risk adjustment is ±25% of the baseline profit rate. For further information please refer to statutory guidance on adjustments to the baseline profit rate. s.17(2), DRA 2014; reg. 11(3), SSCR 2014
Defence contract		Any contract for goods, works or services for defence purposes to which the Secretary of State is party, or any contract entered into for the purpose of enabling such a contract to be fulfilled. reg. 32(6)(a), SSCR 2014
Defined Pricing Structure	DPS	A defined list of cost categories that must be attributed to the contract notification report, interim contract report, and contract completion report. The DPS will vary according to the nature of what is being procured, for example whether it is a contract for equipment design and manufacture or an in-service availability contract. The DPS includes a hierarchy of cost categories, e.g. the costs of a system may be broken out by a sub-system, and a sub-system may be broken down further.
Estimate based fee pricing		Estimate-based fee pricing is one of the six regulated pricing methods permitted by the DRA 2014. Under estimate-based fee pricing, estimated allowable costs are multiplied by the contract profit rate to calculate a fixed profit ('fee') at the time the contract is placed. Actual allowable costs incurred on the contract are then reimbursed under the terms of the contract. reg. 10(7) & (8), SSCR 2014
Final price adjustment		Under certain circumstances, a final price adjustment can be made in respect to qualifying contracts priced using the firm, fixed or volume-driven pricing method. In the event that the outturn profit rate exceeds the contract profit rate (CPR), or where the outturn costs exceed the contract price, a final price adjustment is required for all qualifying contracts with a value equal to or greater than £50 million, and is at the Secretary of State's discretion for qualifying contracts with a value at or above £5 million but below £50 million. A final price adjustment may only be made where the amount of the adjustment would be equal to or greater than £250,000. MOD traditionally refer to a final price adjustment as PEPL. regs. 16 & 17, SSCR 2014.
Firm pricing		Firm pricing is one of the six regulated pricing methods permitted by the DRA 2014. Under firm pricing, allowable costs are estimated at the time the price is agreed, and may only be amended by way of a contract amendment.

		reg. 10(4), SSCR 2014
Fixed pricing		Fixed pricing is one of the six regulated pricing methods permitted by the DRA 2014. Under fixed pricing, allowable costs are estimated at the time the price is agreed (in real terms) but are then adjusted in accordance with changes in specified indices or rates between the time the price is agreed and the specified time stated in the contract. reg. 10(5), SSCR 2014
Government financial year		The Government financial year runs from the 1 April to 31 March.
Group undertaking		Per section 1161(5) of the 2006 Companies Act a group undertaking, means an undertaking which is— (a) a parent undertaking or subsidiary undertaking of that undertaking, or (b) a subsidiary undertaking of any parent undertaking of that undertaking.
Incentive adjustment		The incentive adjustment is the fifth step in calculating the contract profit rate (CPR). Secretary of State has the option to apply an incentive adjustment to the amount resulting in step 4 of the contract profit rate so as to give a supplier a financial incentive as reward for specific aspects of performance. The adjustment is no greater than two percentage points. For further information please refer to statutory guidance on adjustments to the baseline profit rate. s.17(2), DRA 2014; reg. 11(6), SSCR 2014
Key deliverables		A list of the key items to be provided under the contract. Deliverable means any goods, works or services which are provided under the contract and can be described using an output metric.
Milestones		Milestones are significant stages or events during the life of a contract. Often a milestone will mark the completion of significant deliverables in the contract.
Opportunity outturn		The actual cost reductions achieved as a result of opportunities arising after the contract has commenced.
Output metrics		A quantifiable description of any goods, works or services used to express performance against the contract deliverables, as set out in the contract (for example, a number, weight, dimension, time or physical capability). reg. 2(1), SSCR 2014
Outturn		Outturn refers to the actual value achieved. For example opportunity outturn means the actual cost reductions achieved.
Parameters		A numerical or other measurable factor that defines a system or sets the conditions of its operation.
Primary contractor		A person from whom the Secretary of State procures goods, works or services for defence purposes. s.14(2)(a), DRA 2014
Profit on Cost Once	POCO	The profit on cost once (POCO) adjustment is the third step in calculating the contract profit rate (CPR). The adjustment is required to ensure that profit arises only once in relation to group allowable costs included in the price of a qualifying contract. For further information please refer to statutory guidance on adjustments to the baseline profit rate. s.17(2), DRA 2014; regs. 11(4) & 12, SSCR 2014
Qualifying defence contract	QDC	This is a contract made by the Secretary of State for goods, works or services for defence purposes from a 'primary contractor'. The award of the contract is not the result of a competitive process and the value of

		the contract is: - If entered into before 31MAR15 >= £500m - If entered into on or after 31MAR15 >= £5m s.14 (2), DRA 2014; reg. 6, SSCR 2014
Risk contingency allowance		The risk contingency is an amount added to a contract price to allow for the risk of cost increases as a result of various factors. It represents the difference between the average outcome and the most likely outcome.
Risk outturn		The actual cost increases incurred as a result of the impact of risk on the contract price.
Single Source Contract Regulations	SSCR	The Single Source Contract Regulations 2014 (SSCR) are secondary legislation provided for under Part 2 ('Single Source Contracts') of the DRA 2014. Collectively the DRA 2014 and the SSCR 2014 represent the legislation that governs the Single Source procurement framework.
Single Source Regulations Office	SSRO	The Single Source Regulations Office (SSRO) is the regulator of the new single source procurement framework. It is an independent arms-length body, whose aim is to ensure that good value for money is obtained for the UK taxpayer in Ministry of Defence expenditure on qualifying defence contracts, and that single source contractors are paid a fair and reasonable price under those contracts.
Small and Medium Sized Enterprise(s)	SME	Defined by Commission Recommendation 2003/361/EC of 6th May 2003. Extract from Article 2 as follows:- 'The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.'
SSRO funding adjustment		The SSRO funding adjustment is fourth step in calculating the contract profit rate (CPR). The SSRO funding adjustment reduces the amount calculated in step 3 of contract profit rate calculations and allows for the SSRO to be funded by both MOD and industry. The SSRO funding adjustment will be zero until 31 March 2017, and as published by the Secretary of State in the London Gazette for each financial year thereafter. s.17(2), DRA 2014; reg. 11(5), SSCR 2014.
Supplier reporting structure/supplier breakdown		Classification used by suppliers to categorise and manage the costs of a project/contract. This will commonly be based on the structure of their internal accounting system and should be the same as that used in their own management of the contract. Where multiple structures are used by the supplier, it should be the one used to support the management of the contract by those most directly responsible for the delivery of the contract.
Target pricing	TCIF	Target Cost Incentive Fee (TCIF), or 'target' pricing is one of the six regulated pricing methods permitted under the DRA 2014. Under target pricing, allowable costs estimated at the time the price is agreed are used to determine a target cost that is multiplied by the contract profit rate to calculate the contract price. This is then subject to change, based on the difference between actual and estimated allowable costs, according to terms set out in the contract. reg. 10(11) & (12), SSCR 2014
Time of agreement		The date the contract was entered into or the date that the contract was amended and price re-determined. reg. 2, SSCR 2014
Volume driven		Volume driven pricing is one of the six regulated pricing methods

pricing		permitted by the DRA 2014. Under this pricing method the allowable costs are the allowable costs per unit of volume multiplied by the actual volume of output of the contract. The allowable costs must be estimated at the time of agreement and may be adjusted in accordance with changes in specified indices or rates between the time of agreement and a specified time. reg.10(9) & (10), SSCR 2014