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Quarterly qualifying defence contract statistics: Q3 2016/17

10 February 2017

This document presents key statistics relating to the number, duration and estimated price, costs and profit of qualifying defence contracts (QDCs) and qualifying sub-contracts (QSCs). This data is reported to the SSRO through contract reports, as required by Regulation 22 of the Single Source Contract Regulations. The SSRO was notified of 74 contracts that became QDCs/QSCs as of 31 December 2016. Contractors have one month after the date the contract becomes a QDC (the initial reporting date) to submit reports, and as of 1 February 2017 the SSRO has received reports for 72 contracts that became QDCs/QSCs by 31 December 2016, which the following analysis is based on.

This bulletin includes contracts where the date the contract became a QDC/QSC is between 1 April 2015 and 31 December 2016. All data is based on the latest submitted report for each QDC/QSC, to reflect the most recently reported contract data.

Summary

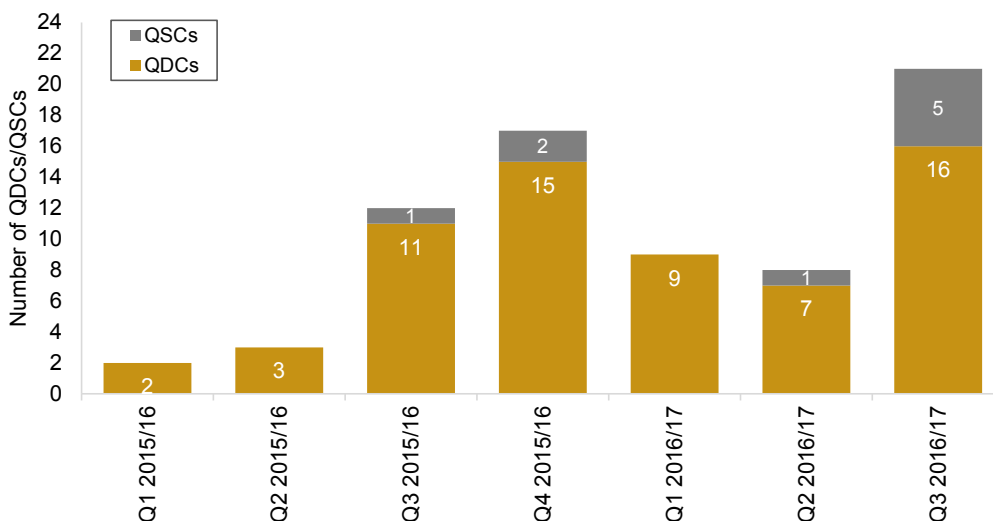
In the nine months between 1 April 2016 and 31 December 2016:

- 32 contracts became QDCs, and 6 contracts became QSCs.
- These QDCs/QSCs reported a total estimated contract price of £5.2 billion (£4.8 billion of estimated Allowable Costs, £0.5 billion of estimated profit¹).
- The mean contract profit rate for the 38 contracts at the time they became a QDCs/QSCs was 10.80 per cent.

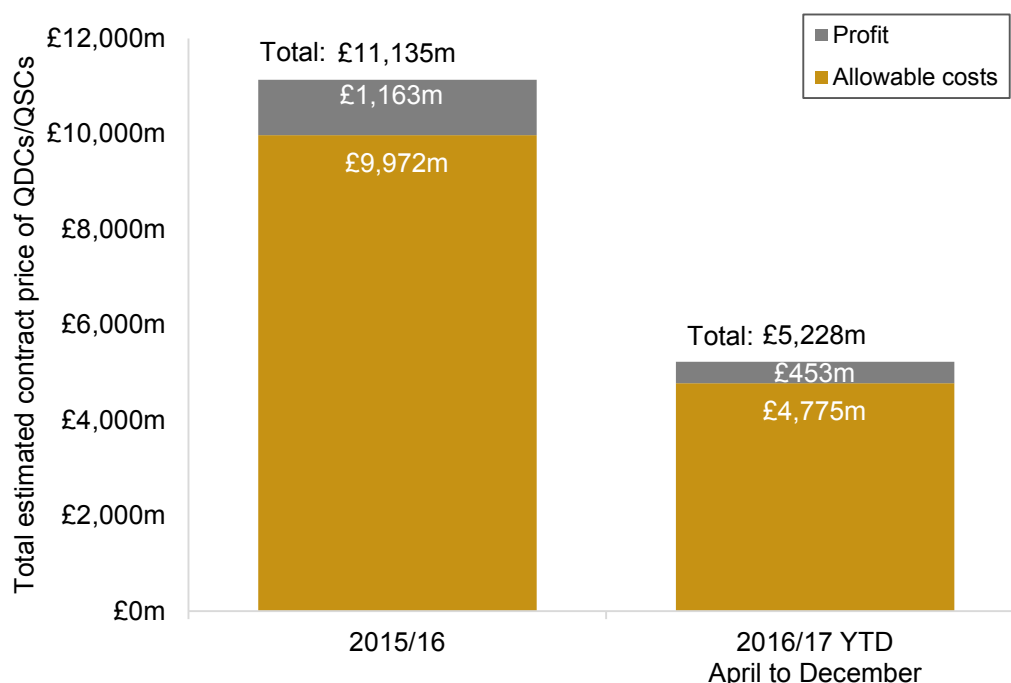
Since the start of the regime², between 1 April 2015 and 31 December 2016:

- 72 contracts became QDCs/QSCs, of which 63 were QDCs and 9 were QSCs.
- The estimated total contract price of these QDCs is £16.4 billion (£14.7 billion of estimated Allowable Costs, £1.6 billion of estimated profit).
- The mean contract profit rate for the 72 contracts at the time they became a QDC/QSC was 11.17 per cent.
- The mean reported duration (from the time the contract became a QDC to planned date of completion) of the 72 QDCs/QSCs is 4.3 years.

Figure 1: Number of QDCs/QSCs by quarter



1 Figures in billions are to the nearest one hundred million. Subtotals may not sum to totals due to rounding.
2 The regime started in 2014, but the SSRO did not receive any QDCs in the 2014/15 financial year.

Figure 2: Estimated contract price of QDCs/QSCs by financial year

Table 1: Number of contract that became QDCs/QSCs by quarter

	QDCs	QSCs	Total
Q1 2015/16	2	0	2
Q2 2015/16	3	0	3
Q3 2015/16	11	1	12
Q4 2015/16	15	2	17
Q1 2016/17	9	0	9
Q2 2016/17	7	1	8
Q3 2016/17	16	5	21
Total	63	9	72

Table 2: Estimated Allowable Costs, profit and total contract price of QDCs/QSCs by financial year³

	Allowable Costs (£m)	Profit (£m)	Total contract price (£m)
2015/16	9,972	1,163	11,135 ^r
2016/17 to 31 Dec	4,775	453	5,228
Total	14,747	1,616	16,363

³ The percentage markup on total Allowable Costs to arrive at the total contract price is the cost weighted average profit rate. Therefore it is not possible to arrive at the total estimated profits reported in Table 2 by applying the rate in Table 3 to the total estimated Allowable Cost.

^r indicates where a figure previously published by the SSRO has been revised to present the latest data.

Table 3: Average (mean) contract profit rate agreed at date contract became a QDC/QSC, by financial year

	Average contract profit rate
2015/16	11.57% ^r
2016/17 to 31 Dec	10.80%
Total	11.17%

Table 4: Average (mean) estimated contract duration of QDCs/QSCs by financial year

	Average duration (years)
2015/16	4.3
2016/17 to 31 Dec	4.3
Total	4.3

Data sources and methodology

The contract price and duration data in this report is sourced from the latest of the Contract Pricing Statement, Quarterly Contract Report, Interim Contract Report or Contract Completion Report submitted to the SSRO for each QDC/QSC. The contract profit rate data is sourced from the latest available Contract Pricing Statement only, and so the contract profit rate statistics reflect the agreed position at the date the contract became a QDC/QSC, while the contract price and duration statistics reflect the latest agreed position. The templates and user guides for these reports are available on the SSRO's website⁴. Data from these reports are collated in the Defence Contract Analysis and Reporting System (DefCARS).

Data is reported using the date a contract became a QDC/QSC (the initial reporting date⁵) and defence contractors are required to submit their initial contract reports within a month of this date. Only QDCs/QSCs which were entered into on or before 31 December 2016 have been included in this release. The contract prices and profit rates reported are those used for contract pricing purposes, and may not reflect the final value or profit rate of the contract once it is completed. All figures are provisional, and may be updated in future statistical releases. Where data is updated from a previous bulletin, the figure will be indicated with an 'r'. Totals are calculated on unrounded figures, before being rounded for presentational purposes.

All data is as reported by defence contractors, except in circumstances where there are known, and significant, data quality issues. Where there are issues, the data has been amended to ensure the statistics are not misleading. In summary, the following adjustments were made in a small number of cases:

- some dates the contract became a QDC/QSC were amended, if the reported date fell within a different financial year to the known date the contract became a QDC/QSC; and
- some contract prices were amended, for example where these were reported in different units or currency.

⁴ <https://www.gov.uk/government/collections/qualifying-defence-contracts-reporting-templates-and-user-guides>

^r indicates where a figure previously published by the SSRO has been revised to present the latest data.

⁵ Either the date the contract was entered into, or if it is a QDC/QSC by amendment, the date of the amendment.

The estimated contract duration is the difference between the date the contract became a QDC/QSC (either the date the contract was entered into, or if it is a QDC/QSC by amendment, the date of the amendment), and the estimated contract completion date. This is a different definition to that used in the 'Planned contract duration reported in Qualifying Defence Contracts 2015/16' SSRO bulletin, due to an update in the SSRO's methodology. Therefore these figures are not comparable. Note that whilst a number of dates contracts become QDCs/QSCs have been amended, the contract duration used is still as per the original dates submitted by contractors.

The Defence Reform Act 2014 (the Act) requires that the price payable under a QDC/QSC must be determined in accordance with the formula: $\text{price} = (\text{CPR} \times \text{AC}) + \text{AC}$. CPR is the contract profit rate for the contract and AC is the Allowable Costs under the contract. When agreeing the contract profit rate, contractors and the MOD must follow a six-step process set out in section 17(2) of the Act and Regulation 11 of the Single Source Contract Regulations 2014 (the Regulations).

The average contract profit rates are an arithmetic mean of the reported contract profit rates reported by QDCs/QSCs within that financial year. Average contract duration is an average of all QDCs/QSCs within that financial year. Averages over the year to date are used for these statistics in order to preserve anonymity, and are less prone to data suppression.

Due to the commercial sensitivity of this data, the SSRO does not release any information that will enable identification of individual contracts or contractors included within the analysis. Where publication of a low number of QDCs/QSCs within a particular data point may risk anonymity, this is suppressed, denoted by a "*". Data relating to the number of QDCs/QSCs is not suppressed, as this does not risk disclosure of identifiable information.

For more information on the SSRO's handling of commercially sensitive information, see the SSRO's statement on its website⁶.



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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.

⁶ <https://www.gov.uk/government/news/handling-commercially-sensitive-information>