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Quarterly qualifying defence contract statistics: Q1 2017/18

10 August 2017

This bulletin 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 by defence contractors to the SSRO through contract reports, as required by Part 5 of the Single Source Contract Regulations 2014. Contracts which became a QDC/QSC between 1 April 2015 and 30 June 2017 are reported on in this bulletin.

The SSRO had been notified of 102 contracts that became QDCs/QSCs since 1 April 2015. Contractors have one month after the date the contract becomes a QDC to submit reports, and as of 31 July 2017 the SSRO had received reports for 95 contracts that became QDCs/QSCs by 30 June 2017, which the following analysis is based on.

All data is based on the latest submitted report for each QDC/QSC, to reflect the most recently reported contract data. Where any figures have been revised from those previously published, this is denoted by an †.

Summary

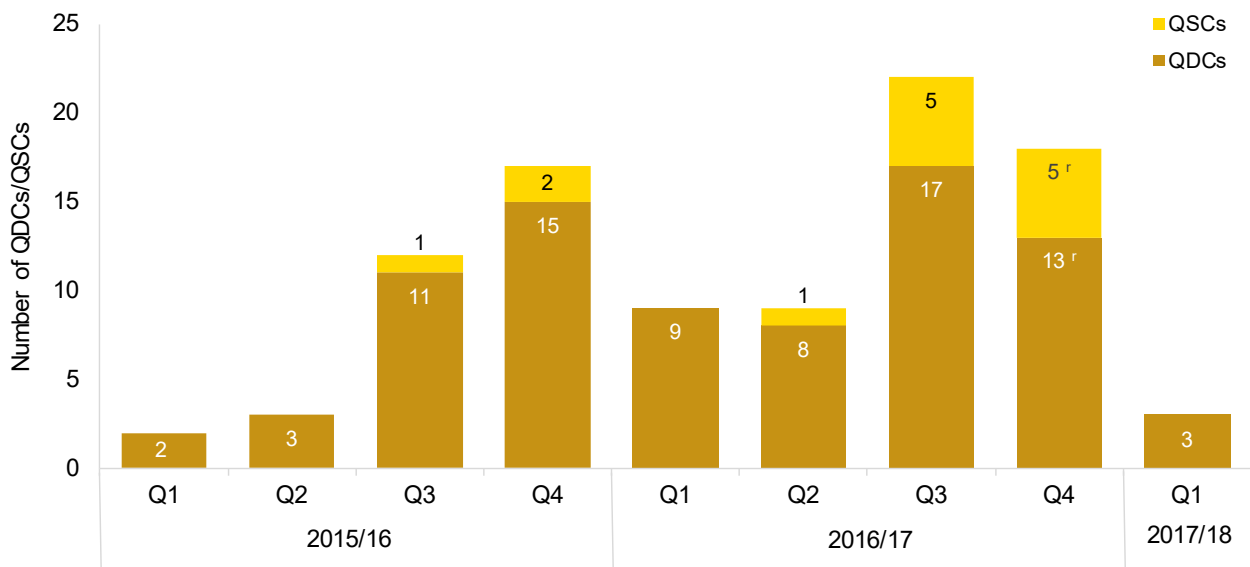
In the three months between 1 April 2017 and 30 June 2017:

- Three contracts became QDCs, and no contracts became QSCs.
- These QDCs reported a total estimated contract price of £21 million (£19 million of estimated Allowable Costs and £2 million of estimated profit).

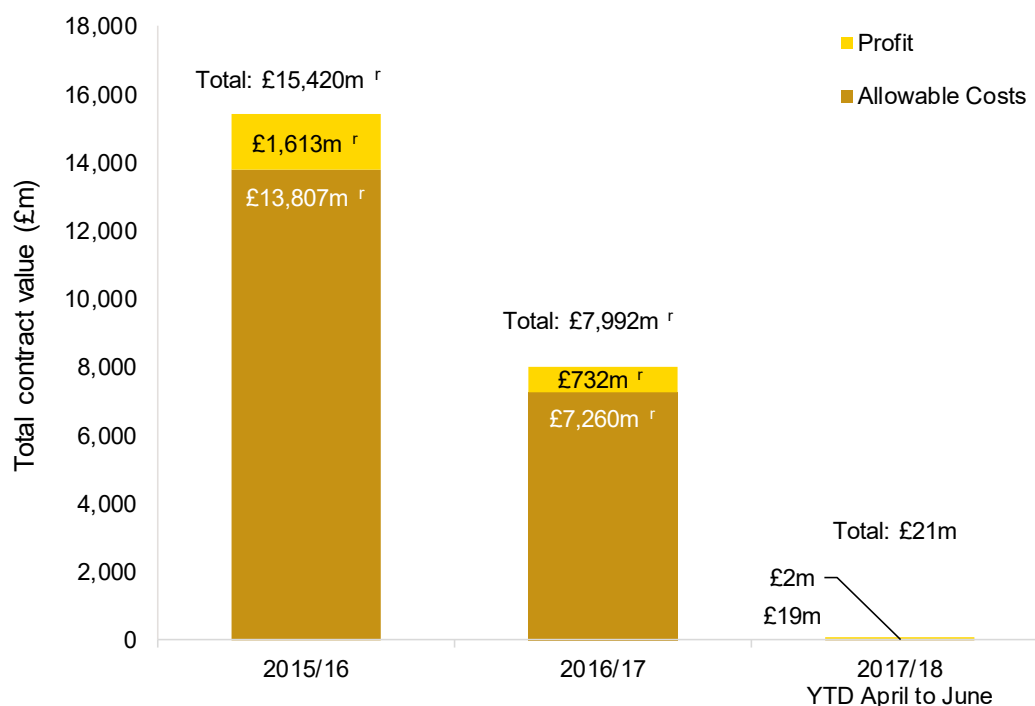
Since the start of the regime¹, between 1 April 2015 and 30 June 2017:

- 95 contracts became QDCs/QSCs (81 QDCs and 14 QSCs).
- The total estimated contract price of these QDCs/QSCs was £23.4 billion (£21.1 billion of estimated Allowable Costs, £2.3 billion of estimated profit).
- The mean estimated contract profit rate for these QDCs/QSCs was 10.93 per cent.
- The mean estimated contract duration of QDCs/QSCs was 4.5 years.

Figure 1: Number of QDCs/QSCs by financial quarter



¹ The regime started in 2014, but the SSRO did not receive any QDCs in the 2014/15 financial year.

Figure 2: Estimated total contract price of QDCs/QSCs by financial year**Table 1: Number of QDCs/QSCs by financial 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	8	1	9
Q3 2016/17	17	5	22
Q4 2016/17	13 ^r	5 ^r	18 ^r
Q1 2017/18	3	0	3
Total	81	14	95

Table 2: Estimated Allowable Costs, profit and total contract price of QDCs/QSCs by financial year²

	Allowable Costs (£m)	Profit (£m)	Total contract price (£m)
2015/16	13,807 ^r	1,613 ^r	15,420 ^r
2016/17	7,260 ^r	732 ^r	7,992 ^r
2017/18 to 30 June	19	2	21
Total	21,086	2,347	23,433

² Calculating the percentage of profit on total Allowable Costs using these figures would represent the cost weighted average profit rate. Therefore, this will differ from the average (mean) estimated profit rate reported in Table 3.

Table 3: Average (mean) estimated contract profit rate by financial year

	Average contract profit rate (%)
2015/16	11.57
2016/17	10.65 ^r
2017/18 to 30 June	9.08
Total	10.93

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

	Average duration (years)
2015/16	4.7 ^r
2016/17	4.5
2017/18 to 30 June	2.4
Total	4.5

Data sources and methodology

Data sources

The data in this report is sourced from a number of different contract reports submitted to the SSRO by contractors:

- The contract pricing 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.
- The contract profit rate data is sourced from the latest available Contract Pricing Statement only.

Because the data can be sourced from different reports, the contract profit rate statistics reflect the agreed position at the date the contract became a QDC/QSC, unless an updated figure has been provided in a new Contract Pricing Statement, while the contract price and duration statistics reflect the latest agreed position in the contract. The user guide for these reports is available on the SSRO's website³. Data from these reports are collated in the Defence Contract Analysis and Reporting System (DefCARS).

Time series data is reported using the date a contract became a QDC/QSC (the initial reporting date⁴) and defence contractors are required to submit their initial contract reports within a month of this date. Only contracts which became QDCs/QSCs on or before 30 June 2017 have been included in this release.

Data revisions

The contract prices, costs, duration and profit rates reported are those used for contract pricing purposes, and may not reflect the final values of the contract once it is completed. All figures are provisional, and may be updated in future statistical releases. Data may also be revised for previous quarters when report submissions which were not received by the reporting cut-off date are later received, or where suppliers have provided reports with updated data. 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.

Adjustments to data

All data is as reported by defence contractors, except in circumstances where there are known, and significant, data quality issues.

³ <https://www.gov.uk/guidance/contract-and-supplier-reporting-defcars-and-associated-guidance>

⁴ Either the date the contract was entered into, or if it is a QDC/QSC by amendment, the date of the amendment.

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.

Where contractors have entered monetary values in currencies other than pounds sterling, values are converted using the exchange rates published by the Bank of England as of the first day of the month in which the contract became a QDC/QSC.

Definitions and clarifications

A QDC is a non-competitively procured defence contract with a value of £5 million or more. If a sub-contract of a QDC is also awarded without competition, and has a value of more than £25 million, it becomes a QSC.

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.

The Defence Reform Act 2014 (the Act) requires that the price payable under a QDC/QSC must be determined in accordance with the formula: price = (CPR x AC) + 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.

Commercial sensitivity

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 website⁵.

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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.

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