

This annual bulletin presents key statistics relating to contracts that became qualifying defence contracts (QDCs) and qualifying sub-contracts (QSCs) between 1 April 2017 and 31 March 2018. 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. Data is also presented since 1 April 2015, the start of the financial year in which contract reports were first submitted.

The SSRO was notified of 152 contracts that became QDCs/QSCs between 1 April 2015 and 31 March 2018. Contractors have one month after the date the contract becomes a QDC to submit reports, and as of 30 April 2018 the SSRO had received contract reports for 141 contracts that became QDCs/QSCs by 31 March 2018, which the following analysis is based on.

All data is based on the latest submitted report for each QDC/QSC as of 30 April 2018, to reflect the most recently reported contract data. Where any figures have been revised from those previously published, this is denoted by an 'r'.

The following sections contain statistics on:

- **Key Statistics 2017/18:** A summary of key figures and trends.
- **Number, duration and SME involvement:** The number and average duration of QDCs/QSCs as well as the number of QDCs/QSCs with SMEs.
- **Price:** The total estimated contract price of QDCs/QSCs, split by Allowable Costs and profit, and the contract pricing methods employed.
- **Profit:** Estimated contract profit rates, including the adjustments made to the baseline profit rate, and the variation seen across QDCs/QSCs.
- **Sub-contracts:** The number and estimated price of the sub-contracts that assist in the delivery of the QDCs/QSCs. Data is only available for the top 20 sub-contracts for each QDC/QSC with a price of greater than £1 million.

## Summary

In the financial year between 1 April 2017 and 31 March 2018:

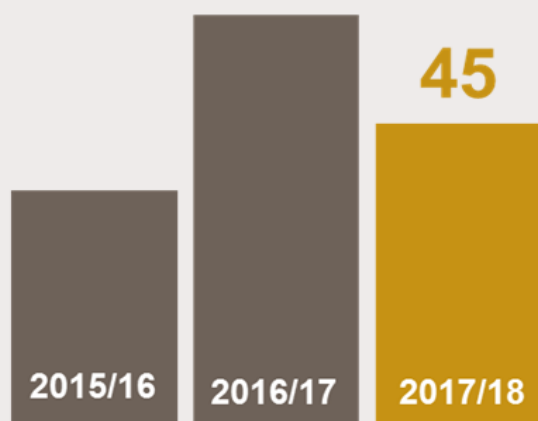
- 45 contracts became QDCs/QSCs (36 QDCs, and nine QSCs)
- The total estimated price of these QDCs/QSCs was £2.7 billion (£2.5 billion of estimated Allowable Costs and £0.2 billion of estimated profit).
- The mean contract profit rate estimated was 8.47 per cent, a reduction of 2.15 percentage points from 2016/17.
- The most commonly reported regulated pricing method (by number of QDCs/QSCs) was firm pricing, with 28 of the 45 QDCs/QSCs using this method in at least a proportion of the contract.

Between 1 April 2015 and 31 March 2018:

- 141 contracts became QDCs/QSCs (117 QDCs and 24 QSCs).
- The total estimated contract price of these QDCs/QSCs was £19.5 billion (£17.6 billion of estimated Allowable Costs, £1.9 billion of estimated profit).
- The mean estimated contract profit rate for these QDCs/QSCs was 10.16 per cent.
- The most commonly reported regulated pricing method (by number of QDCs/QSCs) was firm pricing with 98 of the 141 QDCs/QSCs using this method in at least a proportion of the contract. By total contract price, the most common was target pricing.

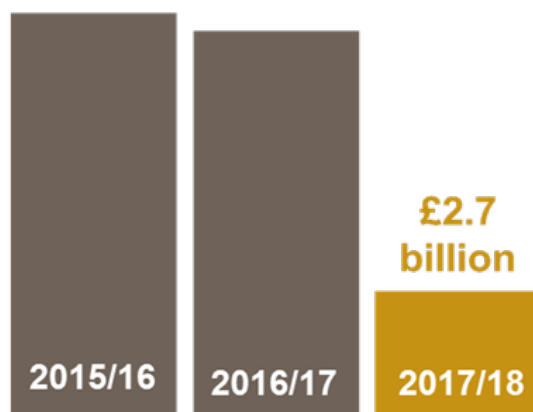
# Key Statistics: In 2017/18...

45 contracts became QDCs/QSCs



Total: **141** QDCs/QSCs

Total estimated contract price of £2.7 billion



Total: **£19.5** billion

Average estimated profit rate decreased by 2.15 percentage points



**11.47%**  
2015/16

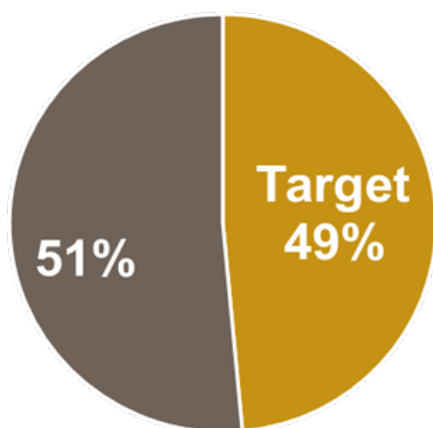
**10.62%**  
2016/17

**8.47%**  
2017/18

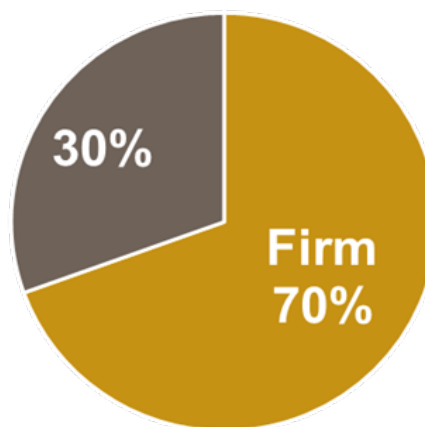
**10.16%**  
Overall

## Since 2015/16...

The target pricing method represented the largest proportion of total contract price, but firm pricing was used by the largest number of QDCs/QSCs



Proportion of total contract price attributed to target pricing



Proportion of QDCs/QSCs that use firm pricing in at least a proportion of the contract

See Figures 7 & 8 for more detail



**4.3** Average estimated contract duration  
years



**363** Sub-contracts reported to the SSRO



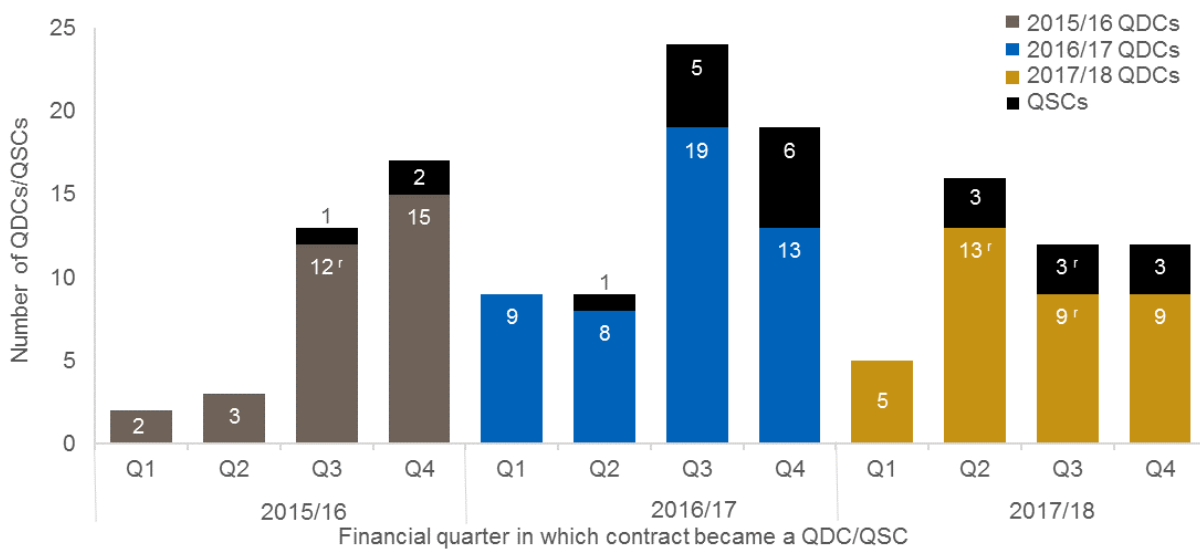
**70** Contracting companies with QDCs/QSCs

## Number, duration and SME involvement

### Summary

- In 2017/18, the SSRO received initial contract reports for 45 QDCs/QSCs.
- Since 1 April 2015, the SSRO had received reports for 141 QDCs/QSCs (35 in 2015/16, 61 in 2016/17).
- Ten of these 141 QDCs/QSCs were with contracting companies that identified as a small or medium enterprise (SME).
- The average (mean) estimated contract duration was 4.3 years across all QDCs/QSCs.

**Figure 1: Number of QDCs/QSCs by financial quarter**

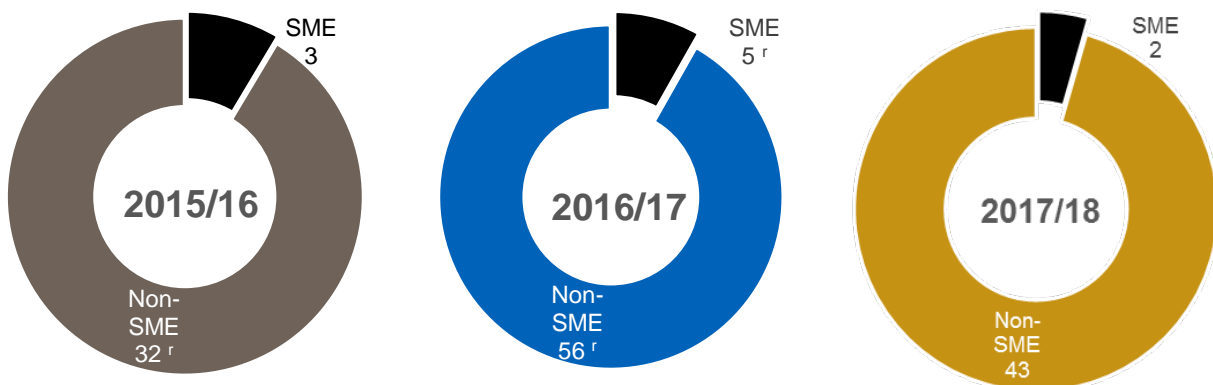


As shown in Figure 1 above, the SSRO had received reports for a total of 141 QDCs/QSCs as of 30 April 2018. There were 36 QDCs and 9 QSCs in 2017/18, 49 QDCs and 12 QSCs in 2016/17, and 32 QDCs and three QSCs in 2015/16. These 141 contracts were awarded to 70 different contracting companies.

### Small and Medium Enterprises (SMEs)

Figure 2 below shows, of the 141 QDCs/QSCs, how many were contracted with small or medium enterprises (SMEs), as reported by contractors. In 2017/18, 4 per cent of QDCs/QSCs were with an SME. Overall, 7 per cent of all QDCs/QSCs were contracted with an SME.

**Figure 2: Proportion of QDCs/QSCs that are contracted to SMEs**



### Duration

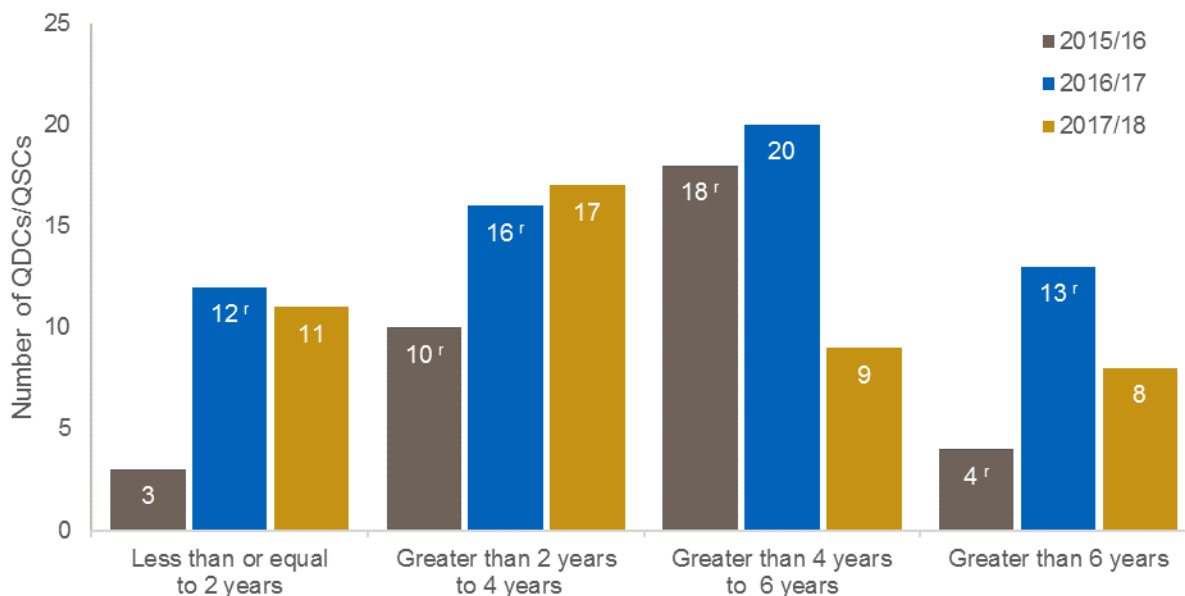
The average (mean) estimated duration of QDCs/QSCs has decreased each financial year, from 4.7 years in 2015/16 to 3.8 years in 2017/18 (see Table 1). The average estimated duration across all QDCs/QSCs was 4.3 years.

**Table 1: Average (mean) estimated contract duration of QDCs/QSCs by financial year**

	Average duration (years)
2015/16	4.7
2016/17	4.5
2017/18	3.8
<b>Overall</b>	<b>4.3</b>

The proportion of QDCs/QSCs with a longer estimated duration (greater than 4 years) has decreased since the start of the regime, as can be seen in Figure 3. In 2015/16, 63 per cent of QDCs/QSCs were estimated to be completed in more than 4 years, but this has decreased to 38 per cent in 2017/18. The most frequently reported estimated contract duration was between four and six years for 2015/16 and 2016/17, and between two and four years in 2017/18 QDCs/QSCs.

**Figure 3: Number of QDCs/QSCs by estimated duration**



## Price

### Summary

- In 2017/18, the total estimated price of QDCs/QSCs was £2.7 billion (£2.5 billion of Allowable Costs, £0.2 billion of profit).
- Since 1 April 2015, the total price of QDCs/QSCs was £19.5 billion (£17.6 billion of Allowable Costs, and £1.9 billion of profit).
- Across all years, the majority of QDCs/QSCs used firm pricing as the regulated pricing method in at least a proportion of the contract. In terms of the contract price associated with each pricing method, target pricing was the method with the highest value associated with it.

**Figure 4: Estimated stock of total contract price of QDCs/QSCs by financial year in which contract became a QDC/QSC<sup>1</sup>**

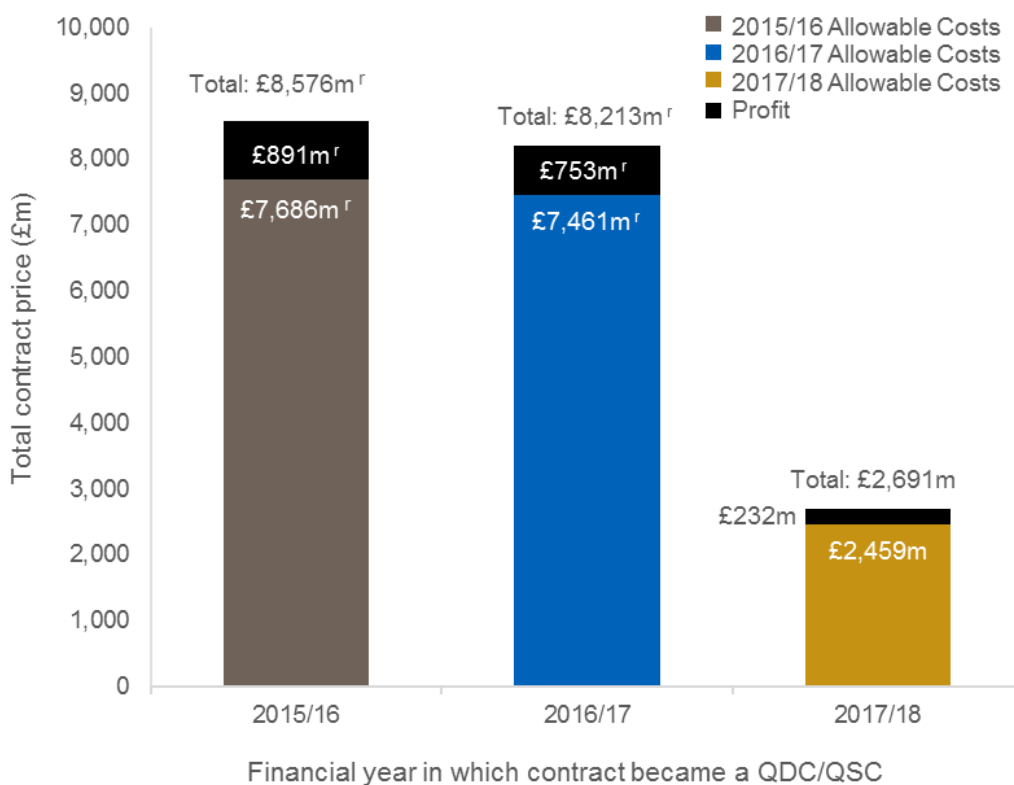


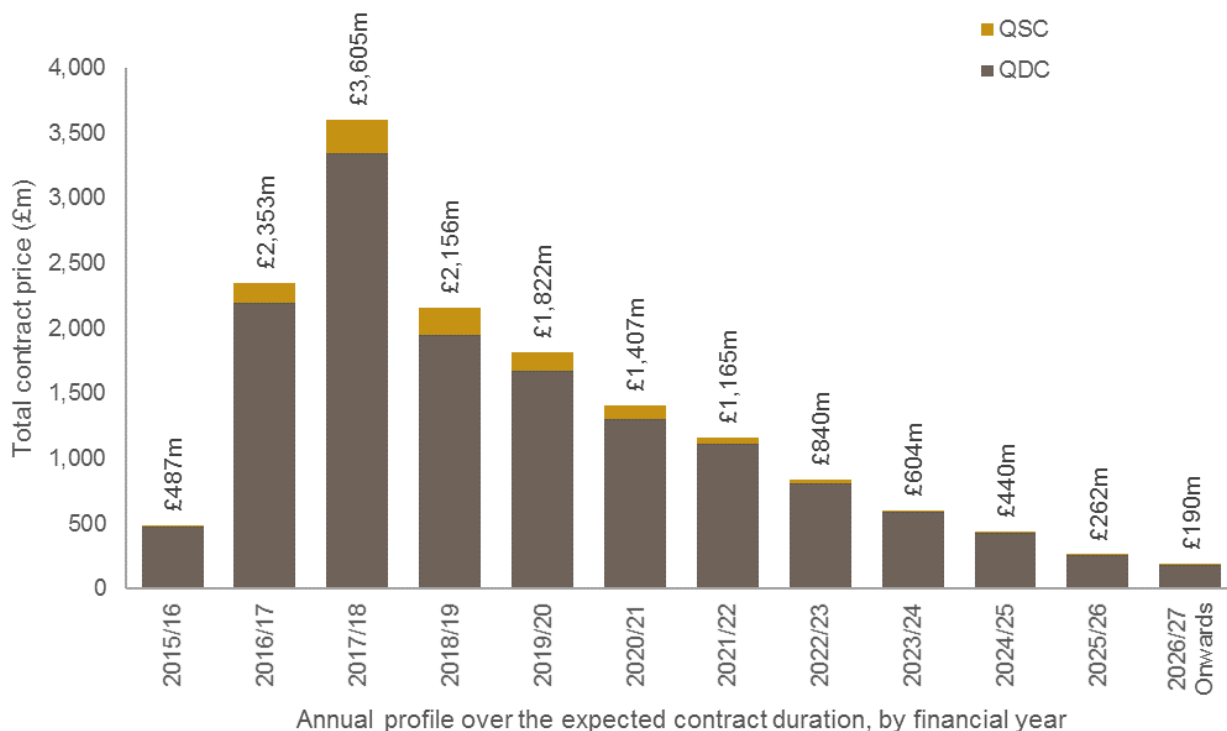
Figure 4 shows the stock of the total contract price by financial year in which the contract became a QDC/QSC. The figures for the previous financial years have been revised since the last statistical bulletin. The total estimated contract price for contracts that became QDCs/QSCs in 2017/18 was lower than in the previous two years, with £8.6 billion in 2015/16, £8.2 billion in 2016/17, and £2.7 billion in 2017/18. This may be expected given that there were a lower number of QDCs/QSCs in 2017/18, and Figure 6 shows there was a lower proportion of QDCs/QSCs with an estimated contract price of over £500 million in 2017/18 compared to in 2015/16 and 2016/17; these contracts comprised the majority of the total estimated contract price in these two financial

<sup>1</sup> Note: Calculating the percentage of profit on total Allowable Costs using the above figures represents the cost weighted average profit rate. Therefore, this will differ from the average estimated profit rate reported later in the document.

## Annual qualifying defence contract statistics: 2017/18

years. Please note that the total contract price may sometimes include costs incurred before the contract became a QDC/QSC ('sunk costs').

**Figure 5: Flow of the estimated total contract price of QDCs/QSCs, annual profile over the expected contract duration (excluding unprofiled amounts), by financial year, as at 30 April 2018**



Annual profile over the expected contract duration, by financial year

*Note: This is a new provisional statistic introduced in this bulletin. Figures may be revised in future updates as further work is carried out on this data series. Financial years from 2026/27 onwards have been combined due to low numbers of QDCs/QSCs reporting in these years. In some cases, the total contract price broken down by annual profile did not equal the total contract price reported elsewhere in the contract reports.*

Figure 5 shows the flow of estimated total contract price for all QDCs/QSCs, which breaks down the total estimated contract price for the current QDCs/QSCs into an annual profile over the expected contract duration. There was a peak in the total estimated price in 2017/18, as this is the latest year in which new contracts have entered the regime and many QDCs/QSCs in 2015/16 and 2016/17 are still ongoing (the average duration of QDCs/QSCs in these years is over four years). The annual total estimated price begins to decrease in future financial years, as contracts complete. Only 25 of the total 141 QDCs/QSCs have an estimated duration of over six years, which may explain the lower total estimated prices expected in later years. As new contracts become QDCs/QSCs, the values in future financial years are expected to increase. The Figure includes reported pricing data profiled for 2015/16 onwards, but contractors may not profile the price, or may not profile it in the standard fields of the contract reports used in this analysis. The data above accounts for £15.4 billion of the £19.5 billion total estimated contract price reported to date across all three financial years.

**Figure 6: Number of QDCs/QSCs by estimated contract price and financial year in which the contract became a QDC/QSC**

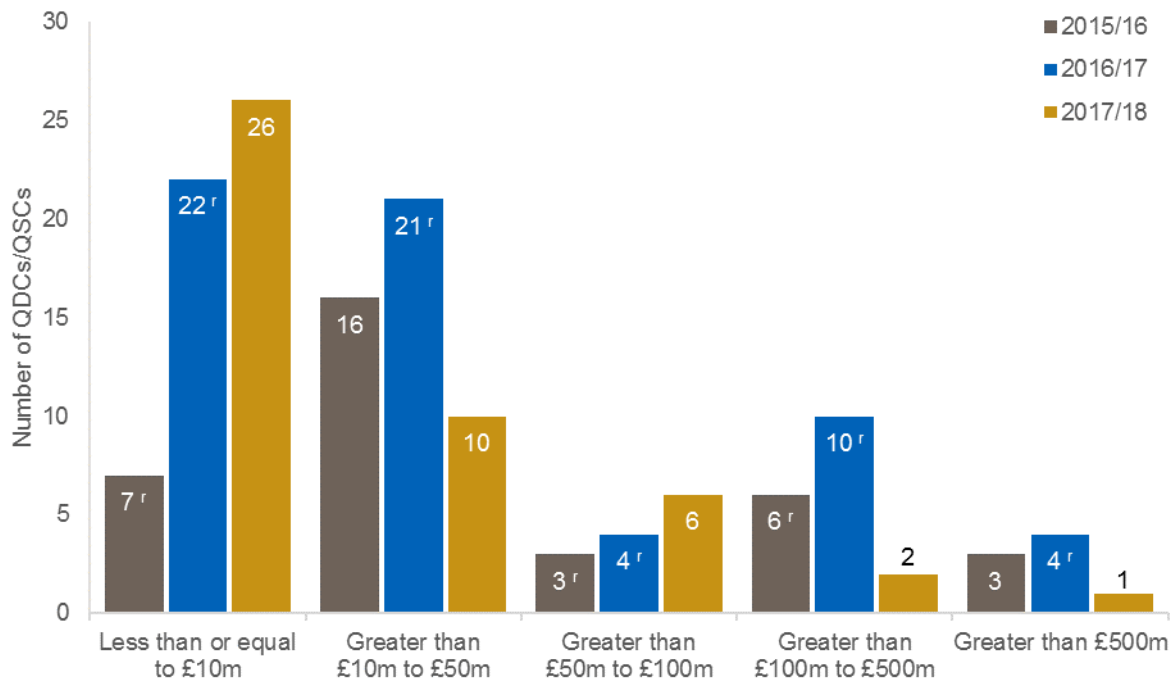


Figure 6 shows the number of QDCs/QSCs by price band and by financial year in which the contract became QDC/QSC. In all years, the lower price bands of 'less than or equal to £10m' and 'greater than £10m to £50m' bands were the two most common price bands. In 2017/18, there has been an increase in the proportion of QDCs/QSCs in the lower-value bands, with only one QDC/QSC with an estimated contract price of greater than £500m. The values reported are the estimated price as agreed at the time of agreement and may not necessarily reflect the outturn price at contract completion.

### Regulated pricing methods

The Single Source Contract Regulations 2014 (Regulation 10) specifies six regulated pricing methods that can be used to determine the price payable for a QSC/QSC. The method used to price a QDC can influence the final price and profit payable, and the incentive to control costs. The six pricing methods are as follows:

- Firm pricing;
- Fixed pricing;
- Cost-plus pricing;
- Estimate-based fee pricing;
- Volume-driven pricing; and
- Target pricing.

For a complete description of each of the six regulated pricing methods, please refer to the SSRO's *Cost risk and incentives in qualifying defence contracts recommendations* discussion paper<sup>2</sup>.

Contracts may employ multiple pricing methods for different elements of a QDC/QSC, and contractors provide a breakdown of the total contract price attributable to each of the six pricing methods in their contract reports. Figure 7 presents the number of QDCs/QSCs that used each of the top 10 most frequently reported regulated pricing methods, or combination of pricing methods.

<sup>2</sup> <https://www.gov.uk/government/publications/review-of-single-source-regulatory-framework>

**Annual qualifying defence contract statistics: 2017/18**

The single most reported pricing method across all three financial years was firm pricing, with 70 out of 141 QDCs/QSCs utilising this method as the sole pricing method for the contract. A further 28 QDCs/QSCs used firm pricing in combination with other pricing method(s).

Out of the 141 QDCs/QSCs, the majority (96 QDCs/QSCs; 68 per cent) reported only using one regulated pricing method in the pricing of the contract, whilst 38 QDCs/QSCs reported using two pricing methods (27 per cent). There were six QDCs/QSCs that reported using three or more different pricing methods (4 per cent), whilst one did not provide a breakdown of the contract price by regulated pricing method.

**Figure 7: Top 10 most frequently reported combinations of regulated pricing methods across all three financial years**

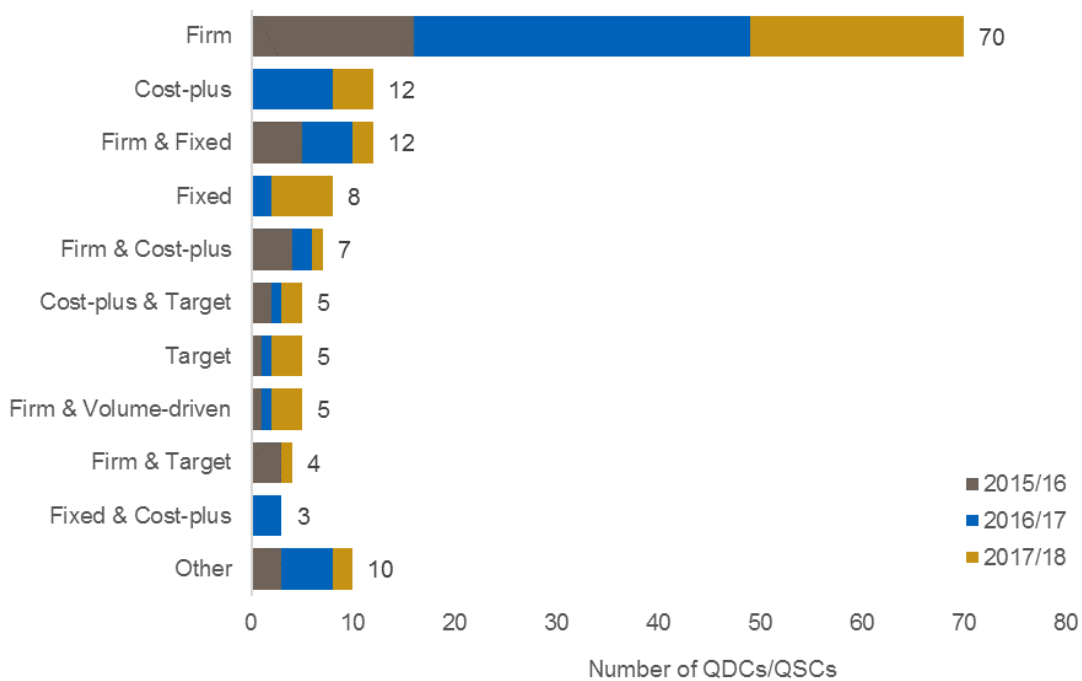
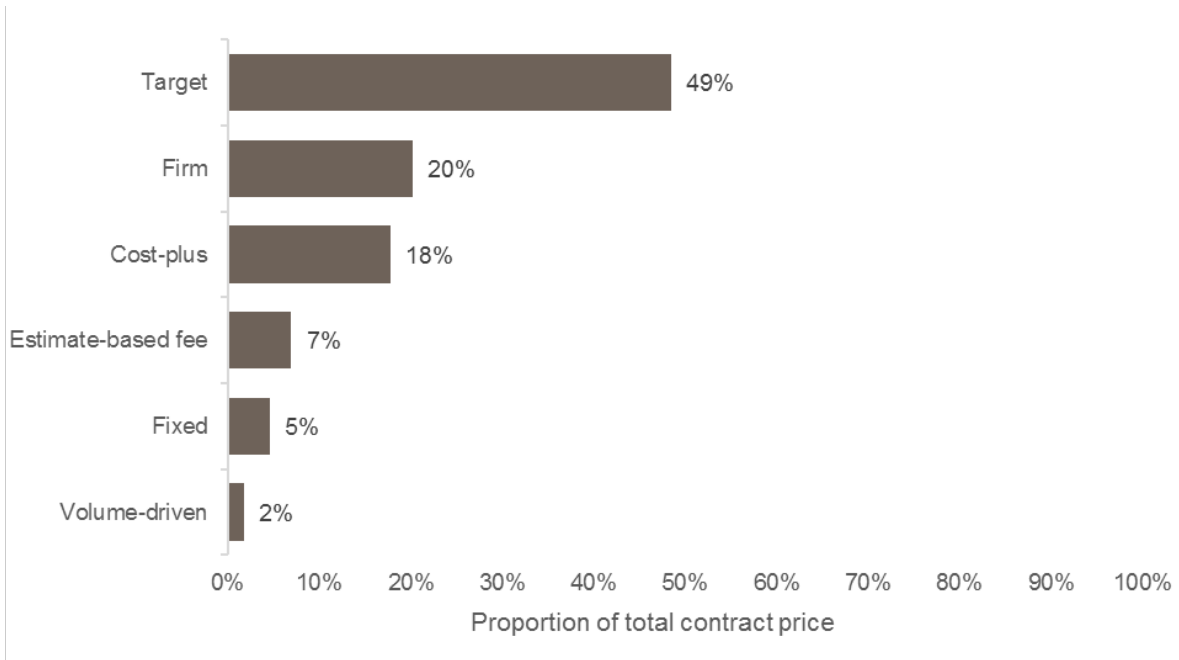




Figure 8 presents the proportion of the contract price attributed to each of the pricing methods across all QDCs/QSCs. It shows that, across the three years, target pricing was the pricing method with the highest contract price associated with it overall. Volume-driven pricing was the least utilised pricing method overall, with 2 per cent of the total contract price associated with this method.

**Figure 8: Proportion of total estimated price of QDCs/QSCs, by regulated pricing method**



## Profit

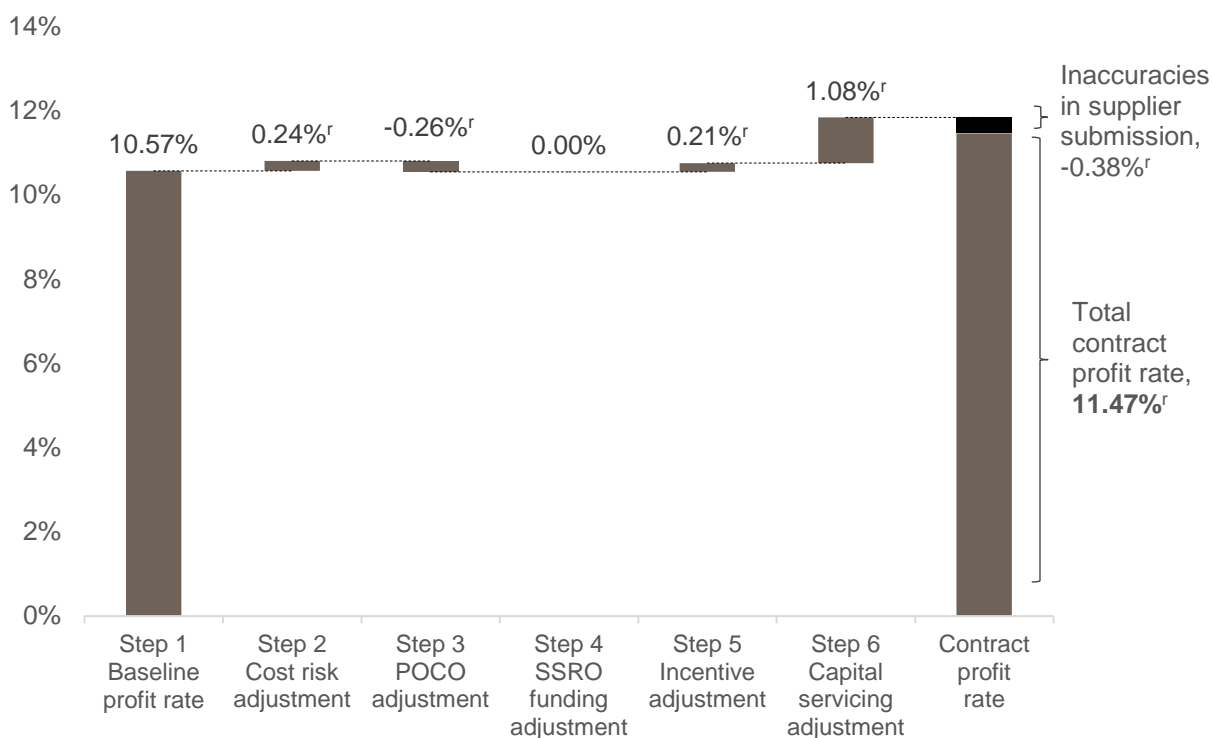
### Summary

- In the 2017/18 financial year, the average contract profit rate (CPR) was 8.47 per cent, compared to 10.62 per cent in 2016/17 QDCs/QSCs; an average reduction of 2.15 percentage points.
- Aside from the baseline profit rate (BPR), the profit step adjustment with the most impact on the contract profit rate was the capital servicing adjustment (CSA) in all financial years. The average CSA was 1.1 percentage points in 2015/16 QDCs/QSCs, 1.2 percentage points in 2016/17 QDCs/QSCs, and 0.9 percentage points in 2017/18 QDCs/QSCs.
- Of the 140 QDCs/QSCs, 12 (9 per cent) had reported a profit-on-cost-once (POCO) adjustment, whilst 24 (17 per cent) had reported an incentive adjustment, across all financial years.

The Defence Reform Act 2014 and the Single Source Contract Regulations 2014 together prescribe a six-step process which should be used to determine the contract profit rate for a QSC/QSC. For more information on these six steps, please refer to the SSRO's *Guidance on the baseline profit rate and its adjustment*<sup>3</sup>. The data presented in this section is based on estimated profit rates at the time of agreement and does not necessarily represent the profit that will be achieved once the contract is complete. Where a QDC/QSC did not provide any profit rate step data, it has been excluded from the analysis in this section.

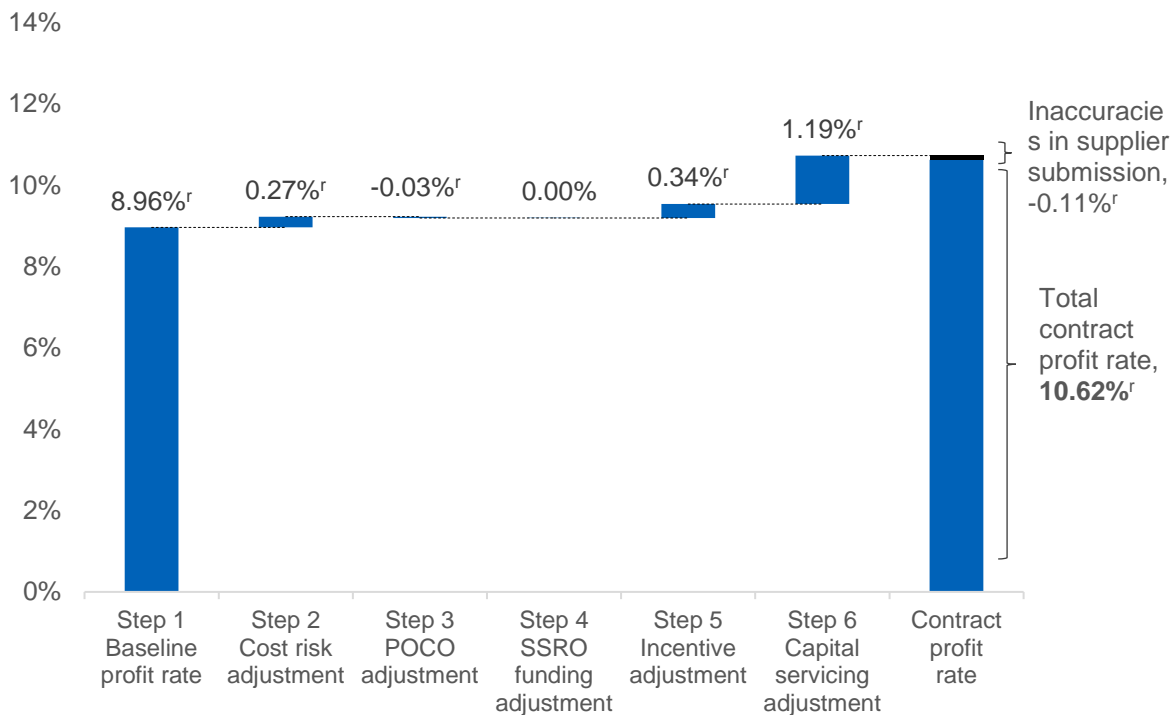
Figure 9, Figure 10 and Figure 11 below show the average (mean) adjustments made to the baseline profit rate for each profit rate step, for the contracts that became QDCs/QSCs in 2015/16, 2016/17 and 2017/18 respectively. The SSRO funding adjustment was set at zero per cent for the first two years, and only came into effect in 2017/18.

**Figure 9: Average (mean) profit rate steps agreed at date contract became a QDC/QSC, for 2015/16 QDCs<sup>4</sup>**

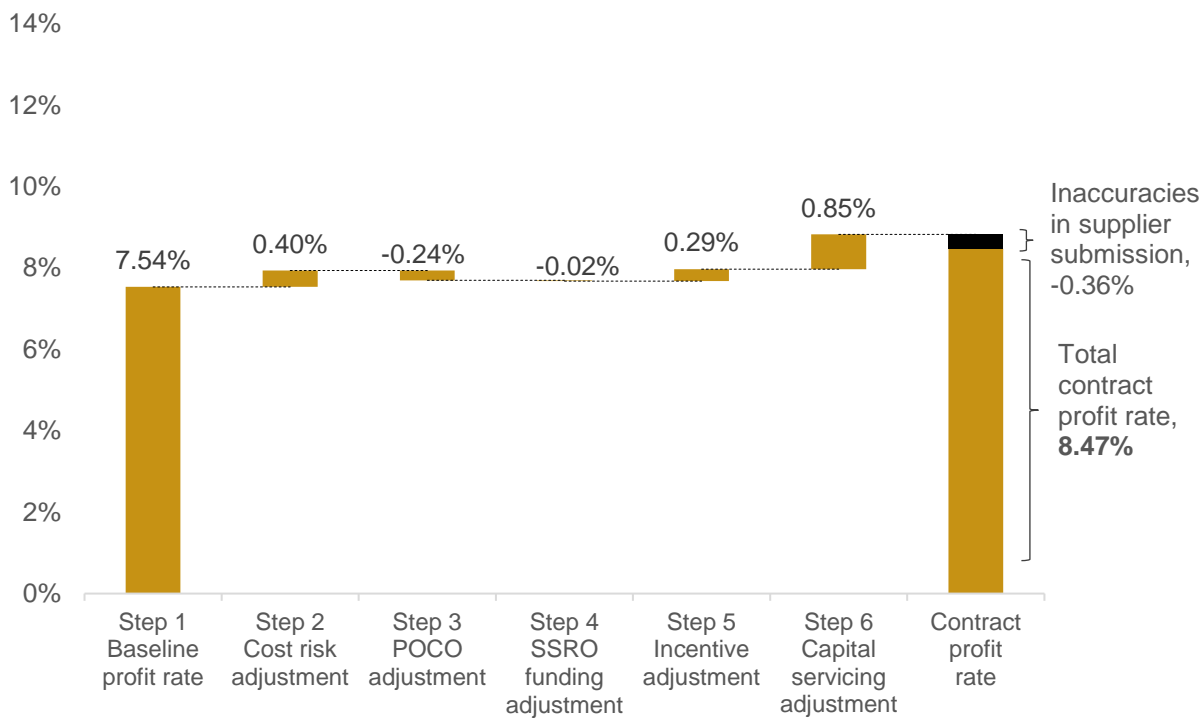


<sup>3</sup> <https://www.gov.uk/government/publications/guidance-on-the-baseline-profit-rate-and-its-adjustment-2018>

**Figure 10: Average (mean) profit rate steps agreed at date contract became a QDC/QSC, for 2016/17 QDCs<sup>4</sup>**



**Figure 11: Average (mean) profit rate steps agreed at date contract became a QDC/QSC, for 2017/18 QDCs<sup>4</sup>**



<sup>4</sup> Note: Some QDCs/QSCs had reported a BPR or SSRO funding adjustment that differed from the rate set by the Secretary of State (for example where a profit rate includes sunk costs, before the BPR was set), which explains why these figures do not show the published rates.

## Annual qualifying defence contract statistics: 2017/18

The average contract profit rate was lower in 2017/18, decreasing by 2.15 percentage points compared to 2016/17 QDCs/QSCs. During the same period the baseline profit rate set by the Secretary of State reduced by 1.49 percentage points from 8.95 per cent to 7.46 per cent. Whilst the baseline profit rate is a fixed rate set by the Secretary of State each year, some QDCs/QSCs had reported a different rate to this, sometimes as the result of reporting an average of two or more rates. Because of this, the average difference in the reported BPR between 2016/17 contracts and 2017/18 contracts was 1.42 percentage points.

On average, the capital servicing adjustment (which aims to ensure that the primary contractor receives an appropriate and reasonable return on the fixed and working capital they employ in contract delivery) changed from 1.19 per cent in 2016/17 to 0.85 per cent in 2017/18, a decrease of 0.34 percentage points. The cost risk adjustment, which at present may range between +/- 25 per cent of the baseline profit rate, was the only profit rate step to increase this financial year, by 0.13 percentage points. The mean contract profit rate across all 141 QDCs/QSCs in all financial years was 10.16 per cent.

The most significant factor in determining a QDC's/QSC's contract profit rate was the baseline profit rate, contributing on average between 84 per cent to 92 per cent of the contract profit rate between 2015/16 and 2017/18, as evidenced in Figure 12 below. The second most significant adjustment was the capital servicing adjustment. The contribution of the cost risk adjustment has increased, from 2 per cent in 2016/17 to 5 per cent in 2017/18.

**Figure 12: The contribution of each profit rate step towards the average contract profit rate<sup>5</sup>**

Profit rate step	2015/16	2016/17	2017/18
Baseline profit rate	92% <sup>r</sup>	84% <sup>r</sup>	89%
Cost risk adjustment	2% <sup>r</sup>	2% <sup>r</sup>	5%
Profit-on-cost-once adjustment	-2% <sup>r</sup>	0%	-3%
SSRO funding adjustment	0%	0%	0%
Incentive adjustment	2% <sup>r</sup>	3% <sup>r</sup>	3%
Capital servicing adjustment	9% <sup>r</sup>	11% <sup>r</sup>	10%
Other (reporting issues)	-3% <sup>r</sup>	-1% <sup>r</sup>	-4%
<b>Contract Profit Rate</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Table 2 shows how many QDCs/QSCs reported contract profit rates above or below the baseline profit rate for the relevant year, amongst the total 140 QDCs/QSCs analysed. In 2015/16, eight out of 35 QDCs/QSCs received a contract profit rate that is lower than the baseline profit rate (23 per cent). In 2016/17, this reduced to seven QDCs/QSCs out of 61 (11 per cent), but in 2017/18, this increased to 12 QDCs/QSCs out of 44 (27 per cent). Overall, the majority (81 per cent) of QDCs/QSCs have agreed a contract profit rate above the baseline profit rate, due to the other steps involved in agreeing a contract profit rate shown above.

<sup>5</sup> The 'other' row relates mostly to data quality issues, where the reported profit rate steps do not sum to the total contract profit rate reported by contractors.

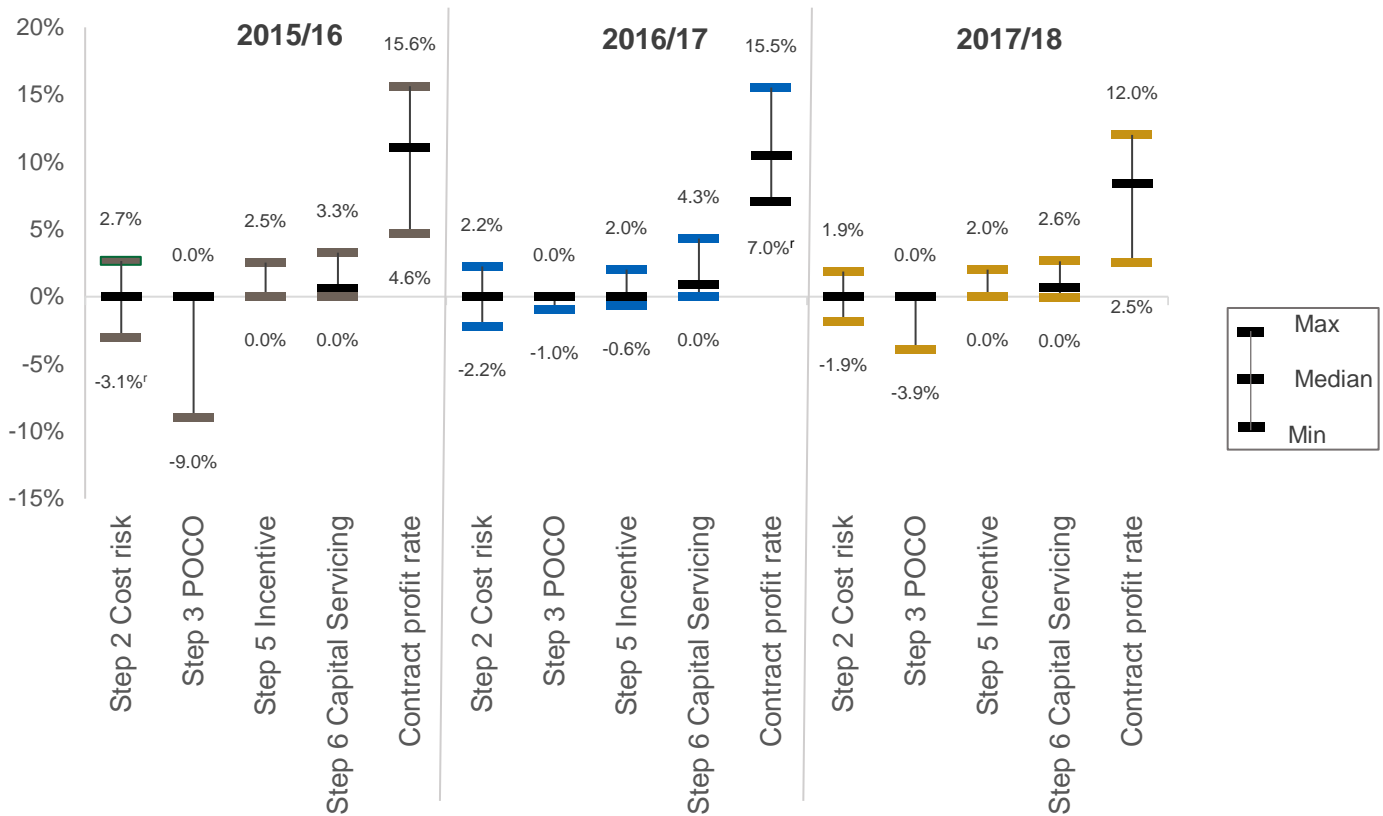
**Table 2: Number of QDCs/QSCs that have reported an estimated contract profit rate above/below the baseline profit rate**

	QDCs where the CPR is equal to or above the BPR		QDCs where the CPR is below the BPR	
	Number	%	Number	%
2015/16	27	77	8	23
2016/17	54	89	7	11
2017/18	32	73	12	27
<b>Overall</b>	<b>113</b>	<b>81</b>	<b>27</b>	<b>19</b>

Figure 13 below shows the maximum, minimum and median values reported for each of the profit rate adjustments (excluding the BPR and SSRO funding adjustment, which are fixed values), and the contract profit rate, for each year. The contract profit rate of QDCs/QSCs in 2017/18 ranged from 2.5% to 12%. In 2017/18 QDCs/QSCs, the profit step with the widest range (excluding the baseline profit rate) was the POCO adjustment (between 0.0 percentage points and -3.9 percentage points). This was the same in 2015/16 (between zero and -9.0 percentage points), but it had the narrowest range in 2016/17 (between zero and -1.0 percentage points). The use of a POCO adjustment would only be used in contracts where there is group sub-contracting. In 2016/17 QDCs/QSCs, the profit step with the widest range was the cost risk adjustment (between +2.2 percentage points and -2.2 percentage points).

The reduction in the range of the cost risk adjustment in each financial year may be due to a reduction in the baseline profit rate, as the risk adjustment is restricted to within +/- 25 per cent of the baseline profit rate. The profit rate data is as reported by contractors, with no adjustments made for known data errors.

Figure 13: Maximum, minimum and median values of profit rate steps reported in individual QDCs/QSCs



Not all contracts receive an adjustment for each of the profit rate steps. Most contracts did not report a POCO adjustment (this adjustment may not be applicable, for example), or an incentive adjustment. Table 3 below shows the number of QDCs/QSCs that reported a POCO and/or incentive adjustment. In 2017/18, the proportion of QDCs/QSCs reporting a POCO adjustment stayed relatively similar to previous years; 10 per cent in 2016/17 to 9 per cent in 2017/18.

Table 3: Number of QDCs/QSCs that have reported POCO and/or incentive adjustments

	Total number of QDCs/QSCs	Number of QDCs/QSCs with a non-zero POCO adjustment		Number of QDCs/QSCs with a non-zero incentive adjustment	
		Number	%	Number	%
2015/16	35 <sup>r</sup>	2	6	4	11 <sup>r</sup>
2016/17	61 <sup>r</sup>	6	10 <sup>r</sup>	13	21 <sup>r</sup>
2017/18	44	4	9	7	16
<b>Overall</b>	<b>140</b>	<b>12</b>	<b>9</b>	<b>24</b>	<b>17</b>

## Sub-contracts

### Summary

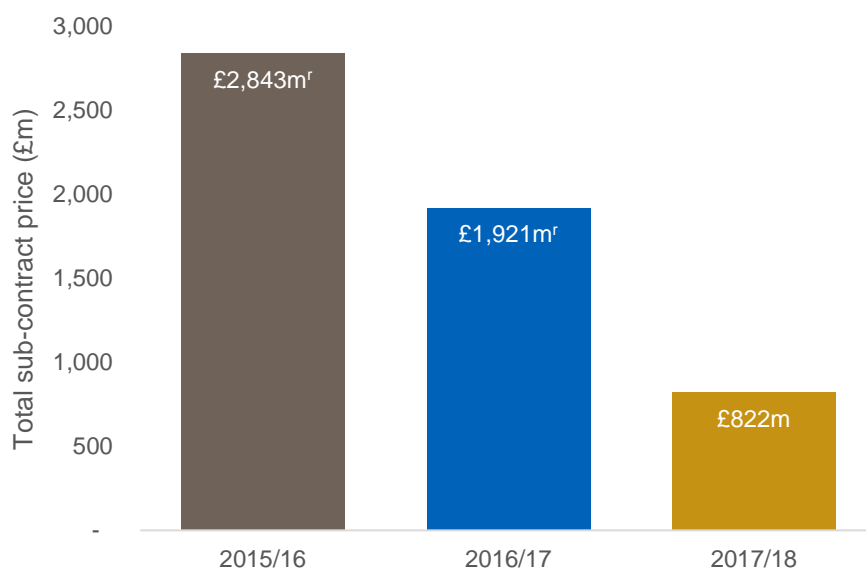
- In 2017/18, the level of sub-contracting in relation to the total QDC/QSC contract price remained similar to the previous year. The total price of sub-contracts was lower in 2017/18 compared to 2016/17 (from £1,921 million in 2016/17 to £822 million in 2017/18), but this may be expected given there was a similar decrease in the total QDC/QSC price in this time period.
- There were fewer reported sub-contracts greater than £1 million in 2017/18 QDCs/QSCs compared to 2016/17 (58 in 2017/18 compared to 173 sub-contracts in 2016/17).
- The number of reported sub-contracts with SMEs as a proportion of total sub-contracts remained level (16 per cent in 2016/17 QDCs/QSCs, and 17 per cent in 2017/18 QDCs/QSCs).
- The average price of a sub-contract with an SME was £4.5 million, compared to an average for sub-contracts with non-SMEs of £17.0 million.

The SSRO receives partial data on the supply chain involved in QDCs/QSCs, for the 20 highest value sub-contracts priced at £1 million or more in each QDC/QSC. The following analysis is based on available data, and as such does not represent the entirety of sub-contracts that are involved in the delivery of QDCs/QSCs. Please note that sub-contracts may contribute to more than one contract, and as such, the sub-contract price is not necessarily fully attributable to the QDC/QSC it has been reported against. The total sub-contract prices below may therefore overestimate the amount of sub-contracting occurring in some QDCs/QSCs.

There were 363 sub-contracts reported to the SSRO: 132 in 2015/16, 173 in 2016/17 and 58 in 2017/18, with a value greater than £1 million. The proportion of these sub-contracts that were with SMEs remained relatively similar in 2017/18 at 17 per cent (compared to 16 per cent in 2016/17). In total, there were 47 sub-contracts with SMEs (nine in 2015/16, 28 in 2016/17 and ten in 2017/18 QDCs/QSCs).

Figure 14 below shows the total reported price of all reported sub-contracts, by financial year. The total value of sub-contracts in 2017/18 was less than half that seen in 2016/17, although the total price of QDCs/QSCs also decreased by a similar amount, suggesting a similar level of sub-contracting in both years. As a proportion of total contract price, reported sub-contracts accounted for 31 per cent in 2017/18, compared to 33 per cent in 2015/16 and 23 per cent in 2016/17.

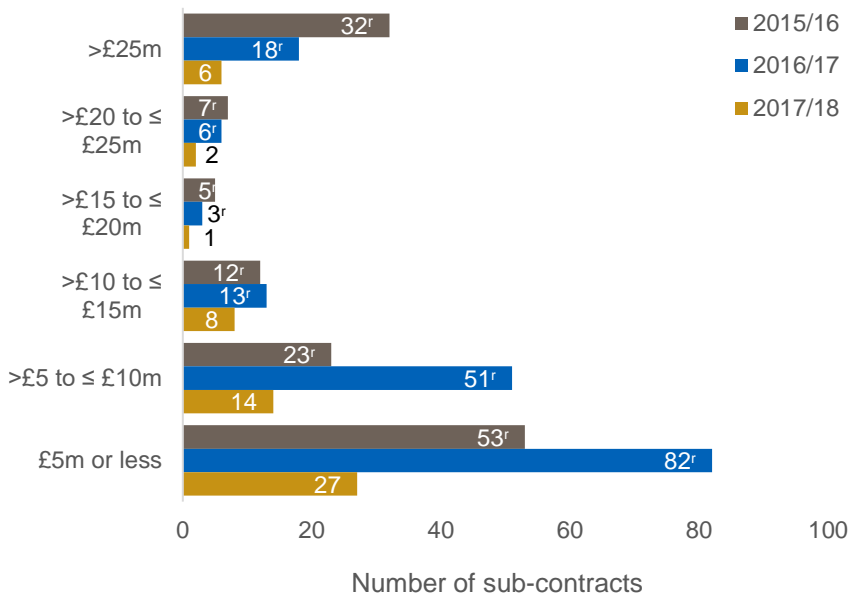
**Figure 14: Total price of top 20 reported sub-contracts above £1 million, by financial year**



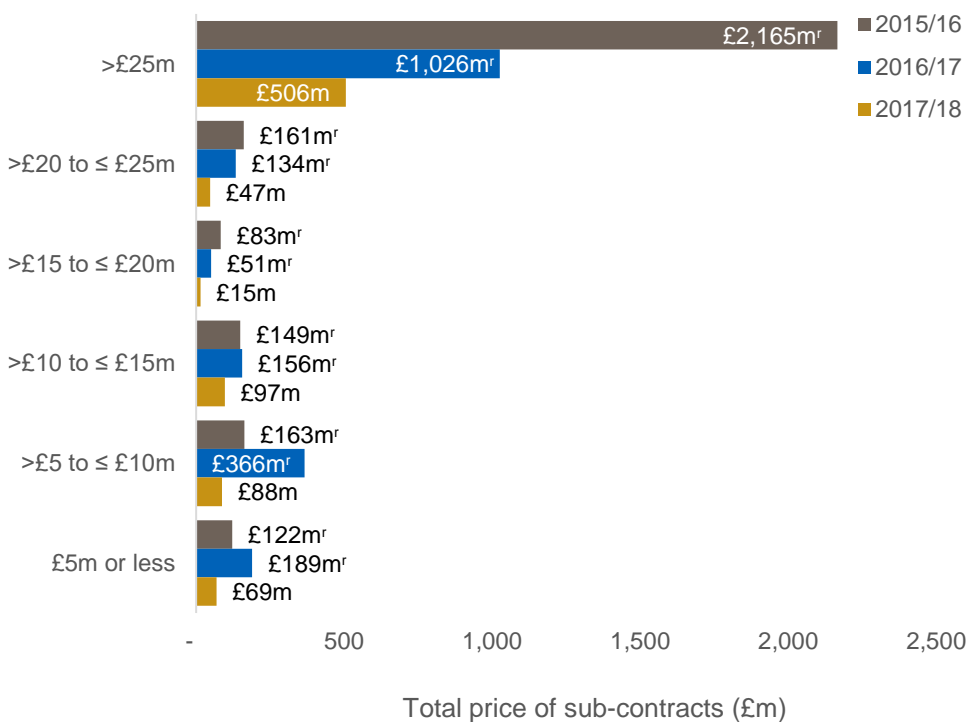
## Annual qualifying defence contract statistics: 2017/18

Figure 15 and Figure 16 show the number and price of reported sub-contracts split by price bands, for each financial year. The majority of reported sub-contracts tended to be lower value (£10 million or under), but a number of large value sub-contracts composed most of the total reported sub-contract price; sub-contracts priced at £25 million or greater represented 15 per cent of the number of reported sub-contracts, but 68 per cent of the total sub-contract price. In 2017/18 QDCs/QSCs, the mean reported sub-contract price was £14 million, a 11 per cent increase from 2016/17, where the average was £11 million.

**Figure 15: Number of top 20 reported sub-contracts above £1 million, by price band and financial year**



**Figure 16: Total estimated price of top 20 reported sub-contracts above £1 million, by price band and financial year**





## 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, Contract Notification Report, Quarterly Contract Report, Interim Contract Report or Contract Completion Report.
- The sub-contract data is sourced from the latest of the Contract Notification Report, 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 is sourced from a number of 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. The contract price, sub-contracts and duration statistics reflect the latest agreed position (when the contract was either entered into or amended). The user guide for these reports are available on the SSRO's website<sup>6</sup>. Data from these reports are collated in the Defence Contract Analysis and Reporting System (DefCARS).

All time-series data apart from Figure 5 is reported using the date a contract became a QDC/QSC (the initial reporting date<sup>7</sup>) 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 31 March 2018 have been included in this release and relates to data submitted or notified to the SSRO by 30 April 2018. Contracts that have submitted a Contract Completion Report, indicating that the contract has now completed, are still included in the analysis.

### Data revisions

The contract prices, costs, duration, sub-contracts 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. Data may also be revised for previous periods where report submissions which were not received by the reporting cut-off date are later received, or where suppliers have provided corrected or updated reports with new data. Where data is revised from a previously published statistic, the figure will be indicated with an 'r'.

Update (16 August 2016): An inconsistency on the overall estimated profit rate figure on page 2 of this bulletin has been corrected. This is a small correction to align the figure with that stated in the rest of the document, from 10.09 per cent to 10.16 per cent.

### Adjustments to data

All data is as reported by defence contractors, except in some circumstances where there are known, and significant, data quality issues. In some circumstances 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;
- some contract/sub-contract prices were amended, for example where these were reported in different units or currency; and

<sup>6</sup> <https://www.gov.uk/guidance/contract-and-supplier-reporting-defcars-and-associated-guidance>

<sup>7</sup> Either the date the contract was entered into, or if it is a QDC/QSC by amendment, the date of the amendment.

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- where the latest contract report did not provide the required data, a previous contract report was used if that did contain the relevant data.

Contractors were previously able to submit contract and sub-contract values in currencies other than pounds sterling. Where this has occurred, values are converted into pound sterling 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

Totals are calculated on unrounded figures, before being rounded for presentational purposes.

The total contract price may sometimes include costs incurred before the contract became a QDC/QSC ('sunk costs').

The 'time of agreement' is either the date in which a QDC/QSC is entered into, the date of an amendment if it is a QDC/QSC by amendment, or if the price payable is re-determined, the date of that redetermination.

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, or actual (where available), contract completion date.

The SME status of a contractor or sub-contractor uses data as submitted by the contractors themselves; no verification on whether these align to the definition of an SME as required by the Single Source Contract Regulations 2014 has taken place for the purposes of this analysis.

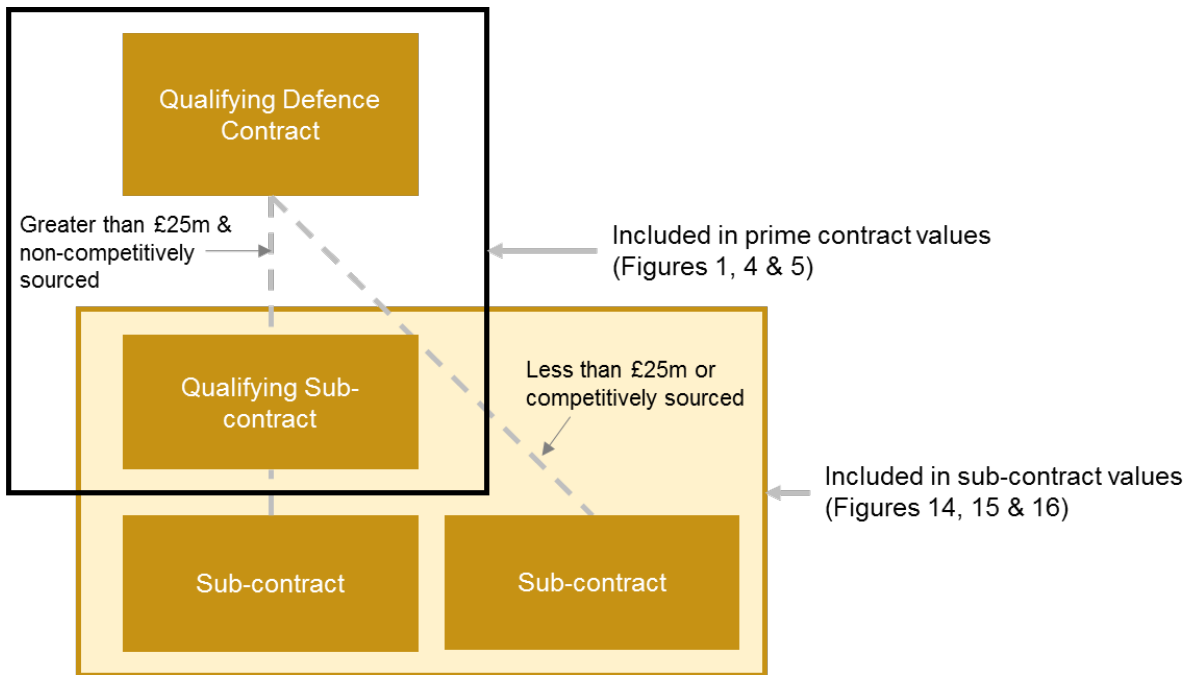
The Defence Reform Act 2014 (the Act) requires that the price payable under a QDC/QSC must be determined in accordance with the formula:  $\text{price} = (\text{CPR} \times \text{AC}) + \text{AC}$ . CPR is the contract profit rate for the contract and AC is the Allowable Costs under the contract. When 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. Where an adjustment does not apply (as is the case with the POCO adjustment for many QDC/QSCs), this is treated as a zero in the calculations. 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 to preserve anonymity and are less prone to data suppression.

Contractors are required to submit the expected value of the sub-contract 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. However, some contractors provide details of sub-contracts below £1 million.

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. Although the price of a QSC is included within the 'parent' QDC price, for the purposes of this analysis the total price of all contracts is the total of all QDCs and QSCs (see Figure 17 for an overview of how QSCs are treated in this analysis). It is also possible for a sub-contract to a QSC to also become a QSC, and this would be included in both the total price of all contracts, as well as the sub-contracting figures.

**Figure 17: Diagram showing how QDC, QSC and sub-contracts have been treated in the analysis**



### 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 may either be suppressed, denoted by a “\*”, or grouped with other figures at a higher level, until there are a sufficient number of QDCs/QSCs. 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 website<sup>8</sup>.

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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](mailto:helpdesk@ssro.gov.uk).

<sup>8</sup> <https://www.gov.uk/government/news/handling-commercially-sensitive-information>