

SSRO

Single Source
Regulations Office

Recommendation factsheet

Under the Defence Reform Act 2014, the SSRO must provide the Secretary of State with its assessment of the appropriate rates used to determine the contract profit rate for pricing qualifying defence contracts and qualifying sub-contracts. For further information on the methodology used to calculate these rates please see the *Single Source baseline profit rate, capital servicing rates and funding adjustment methodology*.

Baseline Profit Rate

The baseline profit rate is Step 1 of the six-step process for determining the contract profit rate for a qualifying defence contract.

The baseline profit rate is calculated from an index of public and private companies. The rate is a composite that combines search results from the “Develop and Make” and “Provide and Maintain” activity groups. The underlying rate is the average of the median capital servicing adjusted profit on cost of production of each group. The baseline profit rate is the three-year rolling average of the underlying rate.

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|--|---------|---------|---------|---------|---------|
| Underlying rate (unadjusted for capital servicing) | 7.52% | 8.39% | 9.22% | 9.85% | 9.80% |
| Capital servicing adjustment | -1.46% | -1.95% | -1.28% | -1.35% | -1.57% |
| Underlying rate | 6.06% | 6.44% | 7.94% | 8.50% | 8.23% |
| Baseline profit rate: three-year rolling average of the underlying rate | 8.95% | 7.46% | 6.81% | 7.63% | 8.22% |

Note: The capital servicing adjustment accounts, at an aggregate level, for different levels of capital employed across the companies in the index and so sets a baseline upon which Step 6 of the contract profit rate applies.

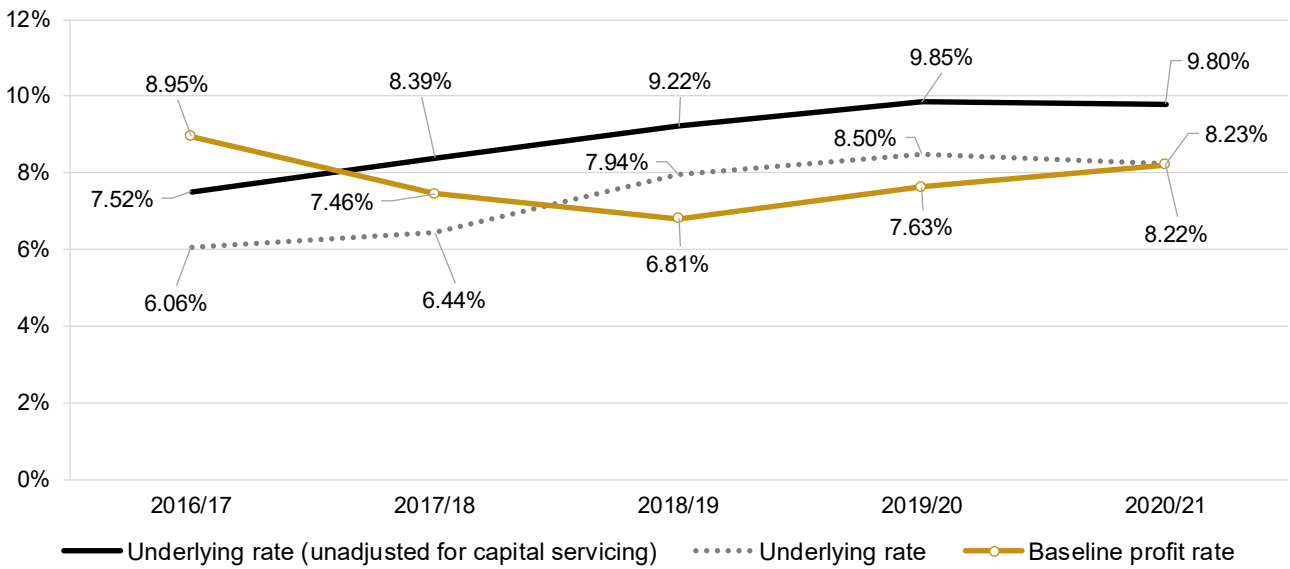
The pre-2016/17 underlying rates used for the three-year average were calculated using the Review Board's methodology. 2014/15: 10.92%, 2015/16: 9.88%.

Data sources

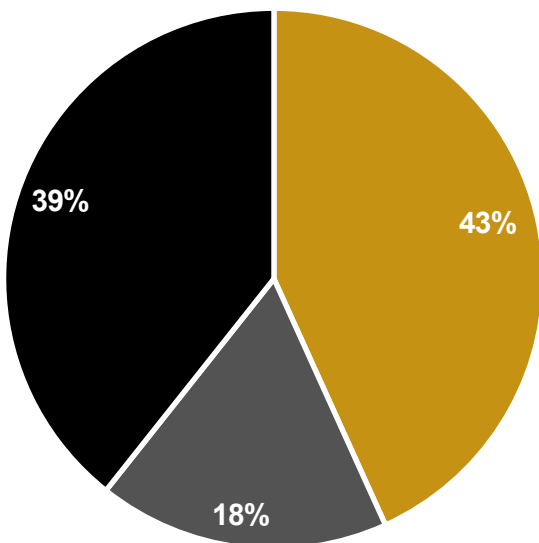
For further information on the data selection approach please see section 7 of the *Single Source baseline profit rate, capital servicing rates and funding adjustment methodology*. A full search of the Orbis database¹ was carried out on 11 November 2019 on data update number 189002 using software version 189. The financial data for the calculation was extracted from Orbis at the same time.

¹ <https://www.bvdinfo.com/en-gb/our-products/data/international/orbis>

Median capital servicing adjusted return on cost of production

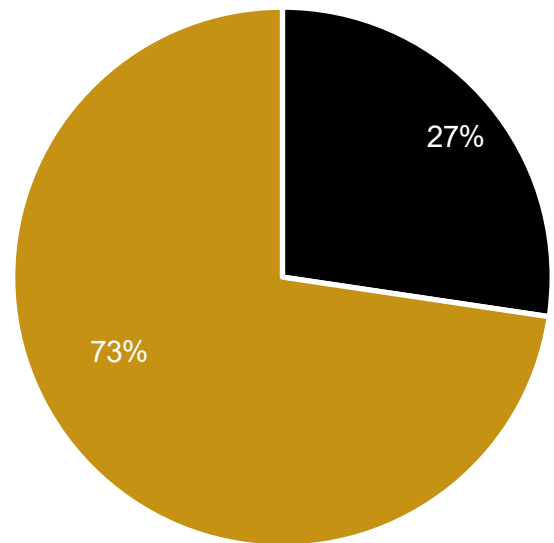


Proportion of Companies by country



- Western Europe excluding United Kingdom
- United Kingdom
- North America

Proportion of companies with defence keyword



- Defence
- Other

Supplementary statistics

| | |
|-------------------------------|--------|
| Number of companies | 457 |
| <i>of which profit making</i> | 384 |
| Aggregate turnover | £1,220 |
| Total capital employed (CE) | £304 |
| Average company CP:CE ratio | 3.57 |

Source: Orbis (Cash figures shown in GBP Billions)

Names of companies in the index

| | | | |
|---|---|---|--|
| A C C Ingenierie et Maintenance * | Avant Tecno Oy | Chart Industries INC | Electromecanica Naval E Industrial SA |
| A/S Vestfrost | Aviat Networks, Inc. | Chemring Group PLC * | Elettronica - Societa PER Azioni |
| Aaon INC | Aviation Training International Limited * | CMZ Machine Tool Manufacturer Sociedad Limitada. | Energy Recovery, Inc. |
| AAR Corp | Axcelis Technologies INC | CNH Industrial N.V. | Environnement S.A. |
| AB Transio | Axon Enterprise, Inc. | Cobham PLC * | Esbelt SA |
| AB Volvo | Azkoyen SA | Cognex Corp | Espey Manufacturing & Electronics Corp |
| Accuracy International Limited * | B.M.B. S.P.A. | Coherent INC | Eurofighter Jagdflugzeug GmbH |
| Actuant Corp | Babcock & Wilcox Enterprises, Inc. * | Cohort PLC | Eurofighter Simulation Systems GmbH |
| Adcock Refrigeration and AIR Conditioning Limited | Babcock International Group PLC | Cohu INC * | EUROJET Turbo Gesellschaft mit beschraenkter Haftung |
| Advanced Energy Industries INC | BAE Systems PLC | Colfax Corporation | Europress Group Oy |
| Aerdragon Aviation Partners Limited | Bailey Trailers Limited | Colosio S.R.L. | EVS Broadcast Equipment SA |
| Aerojet Rocketdyne Holdings, Inc. | Barco NV | Colt Investments Limited | Faro Technologies INC |
| Aerovironment, Inc. | Barnes Group INC | Columbus Mckinnon Corp | Fedegari Autoclavi - S.P.A. |
| Aertec Solutions SL. | Basic Energy Services, INC * | Comerio Ercole S.P.A. | Federal Signal Corp |
| Aggreko PLC | BBA Aviation PLC | Commercial Vehicle Group, Inc. | Filtronic PLC |
| Airbus SE | Bevan Group LTD | Comrod Communication AS | Finning International INC |
| Airtanker Holdings Limited | Bioanalytical Systems INC * | Comtech Telecommunications Corp | Flir Systems INC |
| Airtanker Services Limited | Bittium OYJ | Construcciones Y Auxiliari de Ferrocarriles, S.A. | Flowserve Corp |
| AKO Electromecanica, SA L | BK Technologies INC | Continental AG | Forbes Energy Services Ltd. * |
| Alamo Group INC | Blonder Tongue Laboratories INC* | Cormach S.R.L. | Forum Energy Technologies, Inc. * |
| ALC (Superholdco) Limited | Boeing Company (The) | Costar Technologies, Inc. * | Fratelli Mazzocchia S.P.A. |
| Alfred Cheyne Engineering Limited* | Bombardier INC | Cowles Holdings Limited | Freightcar America, Inc. * |
| Alimak Group AB | Borgwarner INC | CPI Aerostructures INC | Frigoveneta S.P.A. |
| Allied Motion Technologies, Inc. | Boston Scientific Corp | CTA International SAS | G.H.B. (Holding) Limited |
| Allimand * | Brieda E C. - S.R.L. | CTT Systems AB | Gama Aviation PLC * |
| Allison Transmission Holdings, Inc. | Broadwind Energy, Inc. * | Cubic Corp | GAP Holdings Limited |
| Alstom S.A. | Bruker Corporation | Cummins Inc. | Gatx Corp |
| Altra Industrial Motion Corp. | Brunvoll Holding AS | Curtiss Wright Corp | Gencor Industries, Inc. |
| Altran Technologies SA | Burkhalter Holding AG | Cuyppers Vorkliften | General Dynamics Corp |
| American Axle & Manufacturing Holdings, Inc. | Burnside Autocyl (Tullow) Limited | CVD Equipment Corporation * | General Electric Company * |
| American Outdoor Brands Corporation | BWX Technologies Inc. | Cyberoptics Corp | Gentex Corp |
| Ametek INC | Byggesystemer Norge AS | Dallan S.P.A. | Gesellschaft fuer Oeltechnik mit beschraenkter Haftung |
| Amtech Systems INC | C&J Energy Services, Inc. * | Dalmec S.P.A. | GHL Holdings Limited |
| Antonio Carraro S.P.A. | C.M.A. S.P.A. | Dana Incorporated | Glunz & Jensen Holding A/S * |
| Applus Services, S.A. | C.S.C. - S.P.A. | Data I/O Corp | GNS Gesellschaft fuer Nuklear-Service mbH |
| Aptiv PLC | Caci International INC | Dawsongroup PLC | GO Plant Fleet Services LTD * |
| Archrock, Inc. | CAE INC | Deere & CO | Gorman-Rupp Company (The) |
| Arts WAY Manufacturing CO INC* | CAI International INC | DEL BO Impianti S.R.L. | Graco INC |
| Ashtead Group Public Limited Company | Calf S.P.A. | Della Toffola S.P.A. | Graham Corp * |
| Astec Industries INC * | Calpeda S.P.A. | Deutz AG | Gray & Adams (Doncaster) Limited |
| Astronics Corporation | Caprari S.P.A. | Dinolift Oy | Greenbrier Companies, Inc. (The) |
| Astronova, Inc. | Carmanah Technologies Corp. | Douglas Dynamics, Inc. | Grovgaarden AS * |
| Atlas AIR Worldwide Holdings, Inc. | Carrocera Castrosua SA | Dril-Quip INC * | Guaresi S.P.A. |
| Atlas Converting (UK Holdings) Limited * | Carver Group Limited | Dublin Aerospace Limited | Gulf Island Fabrication INC * |
| Atlas Copco AB | Casagrande S.P.A. | Ducommun INC | H&E Equipment Services, Inc. |
| ATS Automation Tooling Systems Inc. | Castledon LTD | Durr AG | Harro Hoefliger Verpackungsmaschinen GmbH |
| Autoliv, Inc. | Caterpillar INC | DXP Enterprises INC | Havyard Group ASA * |
| | Ceco Environmental Corp. | Edge Innovate (NI) Limited | Heico Corp |
| | Ceotronics AG * | | |

| | | | |
|--|---|--|--|
| Heidelberger Druckmaschinen AG | Lecitrailer SA | Nordson Corp | Ryder System INC |
| Heroux-Devtek Inc. | Leidos Holdings, Inc. | Northrop Grumman Corporation | Saab AB |
| Hexcel Corp | Leonardo S.P.A. | Novanta INC | Saalasti Oy |
| Hidden Instruments Limited | Lillbacka Powerco Oy * | Nuova Idropress - Societa' PER Azioni IN Forma Abbreviata NIP S.P.A. | Saf-Holland S.A |
| Honeywell International INC | Linamar Corporation | Oceaneering International INC * | Safra |
| Huntington Ingalls Industries, Inc. | Lockheed Martin Corp | Ocrim - Societa' PER l'Industria Meccanica S.P.A. | Safran S.A. |
| Hurco Companies INC | Logset Oy | Officina Bocedi SRL | Sahala Works Oy |
| HWAAG | Lrad Corporation * | Officina Meccanica Sestese S.P.A. | Saltire Energy Limited |
| Idex Corp | Luminex Corp | Officine Bieffebi S.P.A. | Samp S.P.A. |
| li-Vi INC | M.T.A. Societa' PER Azioni IN Sigla M.T.A. S.P.A. | Officine Meccaniche Galletti (O.M.G.) S.R.L. | Sampo-Rosenlew Oy * |
| Ilmor Engineering Limited | Macpresse Europa S.R.L. | Omav - S.P.A. | Sandvik AB |
| Imer International SPA | Mactaggart Scott (Holdings) Limited | Ormet S.R.L. | Schaltbau Holding AG * |
| Indra Sistemas SA | Magna International INC | Oshkosh Corporation | Schlatter Industries AG |
| Indus Holding AG | Makron Oy | Oxford Instruments PLC | Schmitt - Elevadores, LDA |
| Inficon Holding AG | Malm Orstad AS | P B Donoghue (Waste Management) Limited | Science Applications International Corp |
| Infrabel * | Manitex International, Inc. * | P P S Commercials Limited | SCM Group S.P.A. |
| Ingenieria Y Tecnicas de Montajes Lointek SL | Manitou BF SA | P.F.M. - S.P.A. | Seacor Marine Holdings Inc. * |
| Ingersoll-Rand PLC | Manitowoc Company, Inc. (The) * | Paccar INC | Sele S.R.L. |
| Innovative Solutions & Support INC * | Marel HF. | Park Aerospace Corp. | Servotronics INC |
| Insta Group Oy | Mariani S.R.L. | Paul Mueller Company | Sheffield Forgemasters International Limited |
| Interroll Holding AG | Maritime Partner AS * | PC TEL INC * | Sicamb - S.P.A. |
| Intevac INC * | Maschinenfabrik Berthold Hermle AG | Pekkaniska Group Oy | Siemens AG |
| Intron Corporation | Matteuzzi SRL | Perceptron INC | Sigma Industries Inc. |
| Invertek Drives Limited | MAX Automation SE | Petards Group PLC | Skako A/S |
| Istobal SA | Maxar Technologies Inc. * | Pietro Fiorentini S.P.A. | Smith Brothers (Leicester) Limited |
| Italcab S.P.A. | Mccoy Global Inc. * | PKL Topco Limited | Smiths Group PLC |
| Jacobs Engineering Group INC | Mcgrath Rentcorp | Polaris Industries INC | SnC-Lavalin Group INC * |
| James Fisher and Sons Public Limited Company | Meggitt PLC | Ponsse OYJ | Societe Nationale de Construction Aeronautique * |
| John Bean Technologies Corp | Mercury Systems INC | Portsmouth Aviation Holdings Limited * | Socket Mobile, Inc. * |
| John Nixon Limited | Mikron Holding AG | Powell Industries INC * | Spartan Motors INC |
| John Wood Group P.L.C. | Miller Industries INC | Pratt & Whitney Canada Customer Service Centre Europe GmbH A Joint Venture of P & WC | Speedy Hire PLC |
| Judges Scientific PLC | Mino S.P.A. | Prima Industrie SPA | Spirax-Sarco Engineering PLC |
| Kadant INC | MKS Instruments INC | Qinetiq Group PLC | Spirit Aerosystems Holdings, Inc. |
| Kaman Corp | Mobile Mini INC * | Radley Engineering Limited | SPX Corp |
| Katsa Oy | Modine Manufacturing CO | Ramirent OYJ | SPX Flow, Inc. |
| Kbr, Inc. | Moen Marin Group AS | Raute OYJ | Star Refrigeration Limited |
| Kesla OYJ | Moog INC | Raytheon Company | Steerprop Oy * |
| KEY Technologies Limited | Morgan Advanced Materials PLC | Reductores Cunat SA | Streason Limited |
| Keysight Technologies, Inc. * | Motorola Solutions, Inc. | Renew Holdings PLC | Sturm Ruger & CO INC |
| Kiplun Limited * | Mpac Group PLC * | Renishaw P L C | Sulzer AG |
| KIS Partners AS | MS International PLC | Rheinmetall AG | Sureserve Group PLC * |
| KMG Systems Limited | MTS Systems Corp | Ricardo PLC | SVI S.P.A. |
| KMAG AG | MTU Aero Engines AG | Rival S.R.L. Lavorazioni Meccaniche | Swede Ship Marine Aktiebolag |
| Koenig UND Bauer AG | Muehlhan AG | Robor SRL | Systemair AB |
| Komax Holding AG | MULTIVAC Sepp Haggenmueller SE & Co. KG | Rockwell Automation, Inc. | Tacchi Giacomo E Figli- S.P.A. * |
| Konecranes OYJ | Nanometrics INC | Rodman Polyships SA * | TAI Milano S.P.A. |
| Kratos Defense & Security Solutions, Inc. | National Oilwell Varco, Inc. | Rohde & Schwarz GmbH & Co. Kommanditgesellschaft | Talgo, S.A. |
| Krohne Italia SRL | Natural GAS Services Group, Inc.* | Rolls-Royce Holdings PLC * | Talleres Daumar SL |
| KVH Industries INC * | Navistar International Corp | Roper Technologies, Inc. | Talleres Zitron, SA |
| L3 Technologies INC | NC Engineering (Hamiltonsbawn) Limited | RWG (Repair & Overhauls) Limited | Taylor Devices INC |
| L3harris Technologies, Inc. | NG Bailey Group Limited | | Teagle Holdings Limited |
| LAM Research Corp | NGC S.A. | | Team INC * |
| Langham Industries Limited | NIMAK Gesellschaft mit beschraenkter Haftung | | Teledyne Technologies Incorporated |
| Latecoere SA * | | | Tennant CO |

| | | | |
|---|---------------------------------|--|---|
| Tenneco Inc. | Trinity Industries INC | VSE Corp | Willis Lease Finance Corp |
| Teradyne INC | Triumph Group INC * | Wabash National Corp | Willis Mitsui & CO Engine Support Limited |
| Terex Corp | Tronrud Engineering AS * | Wabco Holdings Inc. | Wilton Universal Group Limited |
| Tesmec SPA | TTS Group ASA | Wacker Neuson SE | Wireless Telecom Group INC |
| Textron INC | Turbo's Hoet Group | Wartsila OYJ | Witt & SON UK Holdings Limited |
| Thales SA | Twin Disc INC | Washtec AG | Woodward, Inc. |
| Thomas Broadbent & Sons,Limited | Ultra Electronics Holdings PLC | Waters Corp | Worthington Industries INC |
| Thwaites Limited | UMI Aeronautica SL | Weber Maschinenbau GmbH Breidenbach | Wozair Limited * |
| Thyssenkrupp AG | United Rentals INC | Welbilt INC | Xylem Inc. |
| Tomra Systems ASA | United Technologies Corporation | Westinghouse AIR Brake Technologies Corp | Zambello Riduttori 2 - S.R.L. |
| Tornos Holding S.A | Univer S.P.A. * | Whale Tankers Limited | Zebra Technologies Corp |
| Total Aircraft Product Support (Holdings) Limited | Vaisala OYJ | Williams Industrial Services Group INC * | |
| Total Energy Services Inc. | Varian Medical Systems INC | Williams Shipping Holdings | |
| Trakm8 Holdings PLC * | VEO Oy * | Limited | |
| Transdigm Group Incorporated | VMS (Holdings) Limited * | | |

* Indicates that the company is a loss-maker in the year. The data for loss-makers are not included in the 2020/21 assessment, but the companies will be taken forward for consideration next year.

Capital servicing rates

The capital servicing rates are used as part of the Step 6 Capital Servicing Adjustment (CSA) of the six-step process for determining the contract profit rate for a qualifying defence contract. A corresponding adjustment accounts, at an aggregate level, for different levels of capital employed across the companies in the index and so sets a baseline upon which Step 6 of the contract profit rate applies.

The capital servicing rates are calculated from indices of sterling denominated corporate bonds or fixed maturity deposits. The rates are rolling averages of the underlying rates.

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---------|---------|---------|---------|---------|
| Fixed capital servicing rate | 5.08% | 4.84% | 4.38% | 3.98% | 3.66% |
| Positive working capital servicing rate | 1.40% | 1.37% | 1.21% | 1.18% | 1.22% |
| Negative working capital servicing rate | 0.74% | 0.59% | 0.53% | 0.53% | 0.61% |

Data sources

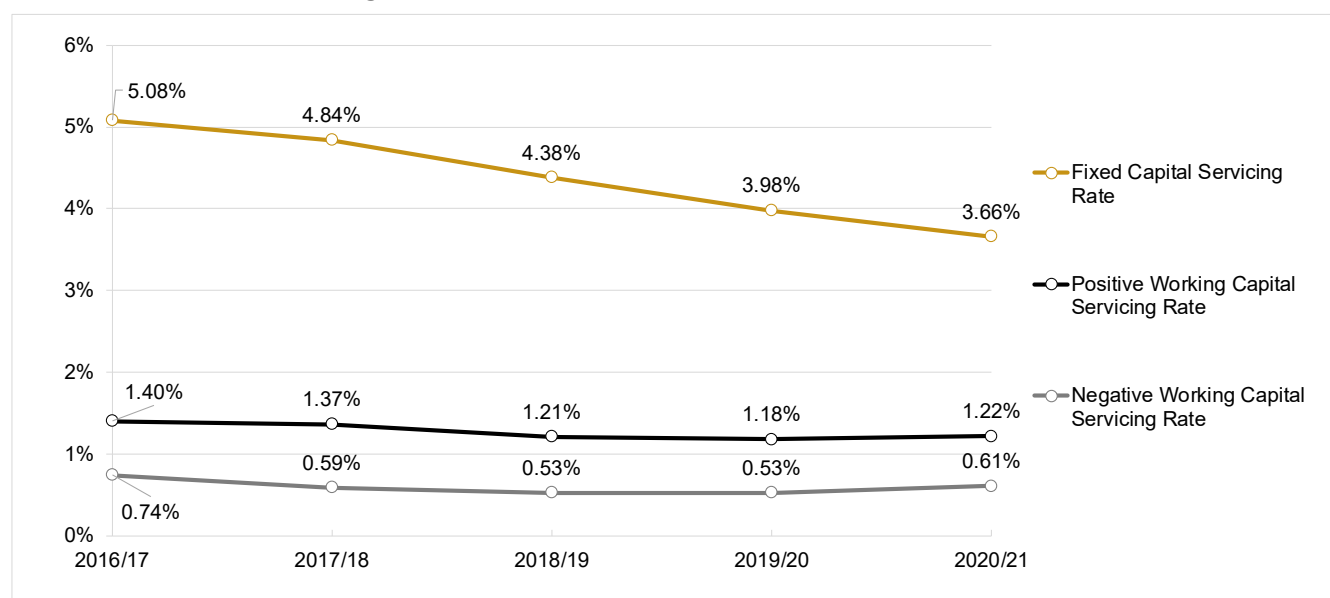
For further information on the data selection approach please see section 13 of the *Single Source baseline profit rate, capital servicing rates and funding adjustment methodology*.

| Rate | Description | |
|---|---|---------------|
| Fixed capital servicing rate | Seven-year average of '15-year BBB GBP' bonds* | C40515Y INDEX |
| Positive working capital servicing rate | Three-year average of '1-year BBB GBP' bonds | C4051Y INDEX |
| Negative working capital servicing rate | Three-year average of Monthly average of UK resident monetary financial institutions' (excl. Central Bank) sterling weighted average interest rate - time deposits with fixed original maturity <=1 year from private non-financial corporations (in percent) not seasonally adjusted | CFMBI32 |

Sources: Bloomberg or Bank of England

*Note: Prior to 31 December 2014 the underlying rate is calculated using the Review Board's methodology, adding 0.5pp to estimate a BBB- yield.

Trends in capital servicing rates



The SSRO funding adjustment

The SSRO funding adjustment is Step 4 of the six-step process for determining the contract profit rate for a qualifying defence contract. The SSRO will be funded equally by the Secretary of State and industry. Industry funding is intended to be equitably shared across contractors based upon the value of their QDCs.

Calculation of SSRO funding adjustment

$$SSRO \text{ funding adjustment} = \frac{SSRO \text{ costs} - \text{Cost of additional tasks requested by SofS}}{\text{Total Allowable Costs of QDCs entered in to}} \times \frac{1}{2}$$

| Financial Year | 2016/17 | 2017/18 | 2018/19 |
|---|------------|-----------|-----------|
| SSRO running costs (£ thousand) | 5,403 | 5,916 | 6,148 |
| Cost of additional tasks requested by SofS (£ thousand) | - | - | - |
| Total Allowable Costs of QDCs and QSCs (£ thousand) | 10,079,000 | 2,602,000 | 4,072,000 |

| Recommendation | 2020/21 | |
|--|---------|-----------|
| SSRO running costs (£ thousand) – 3-year average | a | 5,822 |
| Cost of additional tasks requested by SofS (£ thousand) – 3-year average | b | - |
| Total Allowable Costs of QDCs and QSCs (£ thousand) – 3-year average | c | 5,584,333 |
| SSRO funding adjustment = ((a-b)/c) × 50% | | 0.052% |

Data sources:

For further information on the data selection approach please see section 1 of part 2 of the *Single Source baseline profit rate, capital servicing rates and funding adjustment methodology*. The SSRO costs and the costs of additional tasks requested by the Secretary of State are from the SSRO Annual Report and Accounts.² The total value of contracts is as reported in the latest SSRO *Qualifying defence contract statistics*.³

SSRO funding adjustment history

