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Quarterly qualifying defence contract statistics: Q3 2017/18

19 February 2018

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. This bulletin focuses on contracts which became a QDC/QSC between 1 April 2015 and 31 December 2017.

The SSRO was notified of 137 contracts that became QDCs/QSCs between 1 April 2015 and 31 December 2017. Contractors have one month after the date the contract becomes a QDC to submit reports, and as of 31 January 2018 the SSRO had received reports for 125 contracts that became QDCs/QSCs by 31 December 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 'r'.

Summary

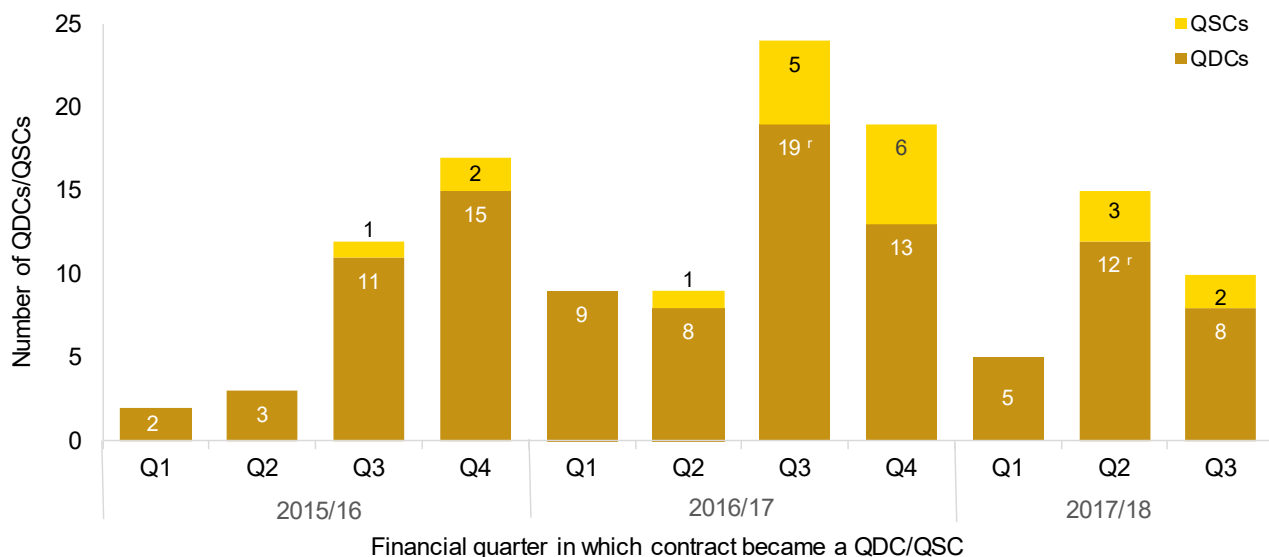
In the nine months between 1 April 2017 and 31 December 2017:

- 25 contracts became QDCs, and 5 contracts became QSCs.
- These QDCs reported a total estimated contract price of £622 million (£574 million of estimated Allowable Costs and £48 million of estimated profit).

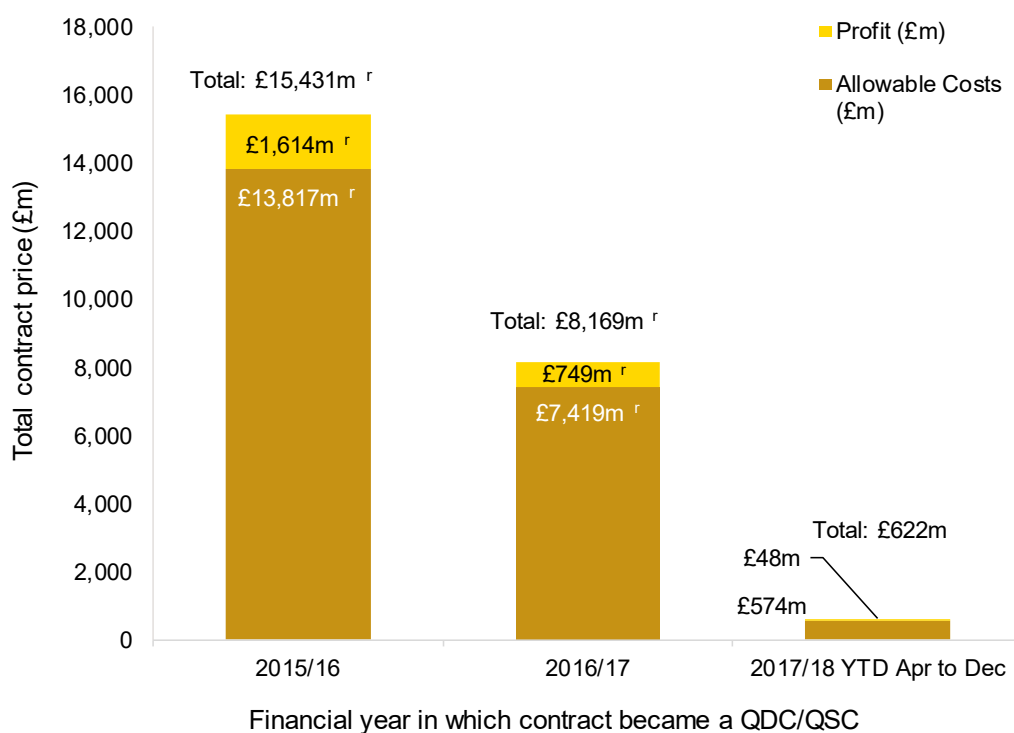
Since the start of the regime¹, between 1 April 2015 and 31 December 2017:

- 125 contracts became QDCs/QSCs (105 QDCs and 20 QSCs).
- The total estimated contract price of these QDCs/QSCs was £24.2 billion (£21.8 billion of estimated Allowable Costs, £2.4 billion of estimated profit).
- The mean estimated contract profit rate for these QDCs/QSCs was 10.36 per cent.
- The mean estimated contract duration of QDCs/QSCs was 4.3 years.

Figure 1: Number of QDCs/QSCs by financial quarter



¹ The regime started in 2014, but no contracts were reported as 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**

Financial quarter in which contract became a QDC/QSC	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	19 ^r	5	24 ^r
Q4 2016/17	13	6	19
Q1 2017/18	5	0	5
Q2 2017/18	12 ^r	3	15 ^r
Q3 2017/18	8	2	10
Total	105	20	125

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

Financial year in which contract became a QDC/QSC	Allowable Costs (£m)	Profit (£m)	Total contract price (£m)
2015/16	13,817 ^r	1,614 ^r	15,431 ^r
2016/17	7,419 ^r	749 ^r	8,169 ^r
2017/18 YTD Apr to Dec	574	48	622
Total	21,810	2,412	24,221

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

Financial year in which contract became a QDC/QSC	Average contract profit rate (%)
2015/16	11.57
2016/17	10.62 ^r
2017/18 YTD Apr to Dec	8.46
Total	10.36

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

Financial year in which contract became a QDC/QSC	Average duration (years)
2015/16	4.7
2016/17	4.5
2017/18 YTD Apr to Dec	3.4
Total	4.3

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 available data in 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 data in the 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. The contract price statistics reflect the latest agreed price either when the contract was entered into or amended, and the contract duration figures reflect the latest reported contract duration. 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 31 December 2017 have been included in this release, and relates to data submitted or notified to the SSRO by 31 January 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 and profit rates reported 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.

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.

Adjustments to data

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 at which 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 currencies.

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 £25million, 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.

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

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.