

This annual bulletin presents key statistics relating to contracts that became qualifying defence contracts (QDCs) and qualifying sub-contracts (QSCs) between 1 April 2018 and 31 March 2019. 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 214 contracts that became QDCs/QSCs between 1 April 2015 and 31 March 2019. Contractors have one month after the date the contract becomes a QDC to submit reports, and as of 30 April 2019 the SSRO had received contract reports for 201 contracts that became QDCs/QSCs by 31 March 2019, which the following analysis is based on.

All data is based on the latest submitted report for each QDC/QSC as of 30 April 2019, to reflect the most recently reported contract data. Where any figures have been revised from those previously published, this is denoted by an †.

The SSRO is aware that stakeholders are interested in new statistics specifically looking at contracts that have now completed. Currently, there is only a small number of contracts that have submitted Contract Completion Reports (six contracts), and so it was decided not to introduce these statistics until there is more data available. The SSRO will review this in the 2019/20 financial year and will engage with stakeholders on the development of the statistics.

The bulletin contains statistics under the following sections:

- **Number, duration and SME involvement**
- **Price and pricing methods**
- **Profit**
- **Sub-contracts**

Summary

In the financial year between 1 April 2018 and 31 March 2019:

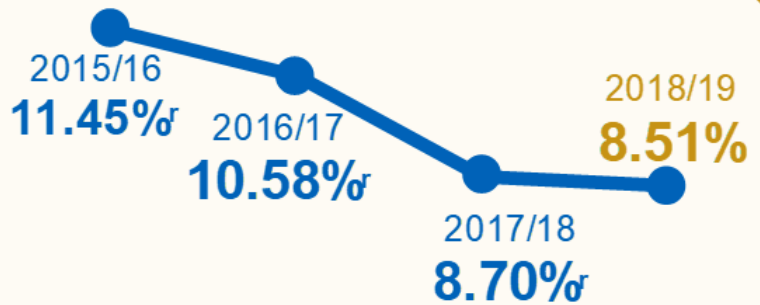
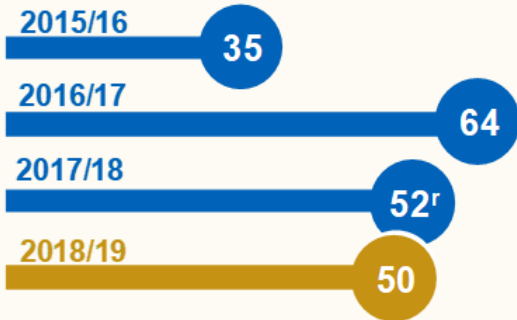
- 50 contracts became QDCs/QSCs (44 QDCs, and 6 QSCs)
- The total estimated price of these QDCs/QSCs was £3.8 billion (£3.5 billion of estimated Allowable Costs and £0.3 billion of estimated profit).
- The mean contract profit rate estimated was 8.51 per cent, a reduction of 0.19 percentage points from 2017/18.
- The most commonly reported regulated pricing method (by number of QDCs/QSCs) was firm pricing, with 32 QDCs/QSCs using this method in at least a proportion of the contract.

Between 1 April 2015 and 31 March 2019:

- 201 contracts became QDCs/QSCs (169 QDCs and 32 QSCs).
- The total estimated contract price of these QDCs/QSCs was £26.8 billion (£24.3 billion of estimated Allowable Costs, £2.5 billion of estimated profit).
- The mean estimated contract profit rate for these QDCs/QSCs was 9.74 per cent.
- The most commonly reported regulated pricing method (by number of QDCs/QSCs) was firm pricing with 147 QDCs/QSCs using this method in at least a proportion of the contract. By total contract price, the most common was target pricing, with 42 per cent of contract price attributed to this pricing method.

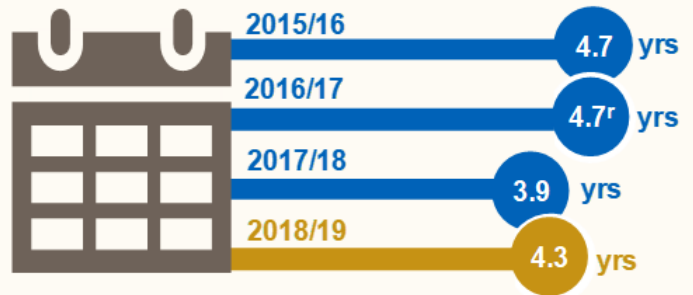
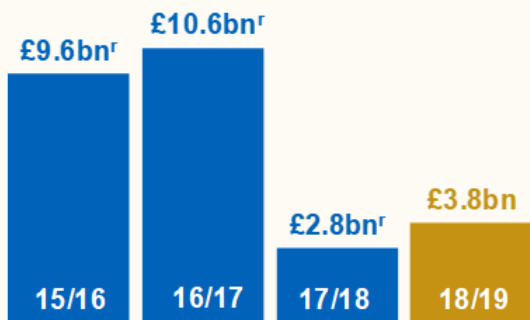
2018/19 QDC/QSC statistics

In 2018/19...



50 new QDCs/QSCs

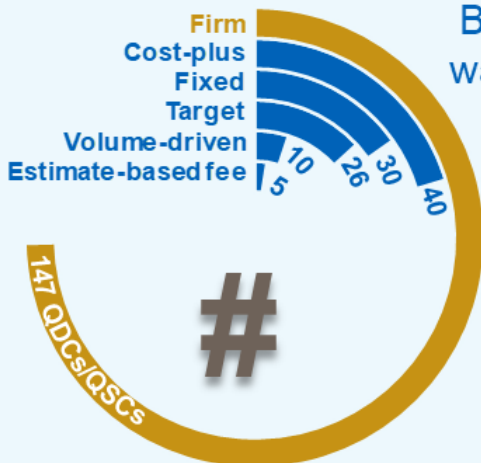
8.51% average estimated profit rate



£3.8 billion estimated contract price

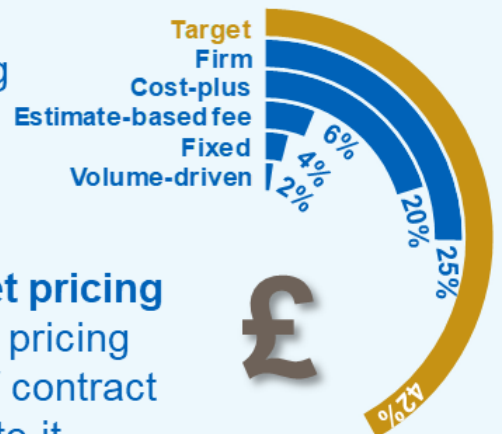
4.3 years average estimated contract duration

Since the start of the regime...



By number, **Firm pricing** was the most used pricing method, used in **147** QDCs/QSCs...

...but by price, **Target pricing** was the most used pricing method, with 42% of contract price attributed to it.



460 Sub-contracts reported to the SSRO

98 Contracting companies with QDCs/QSCs

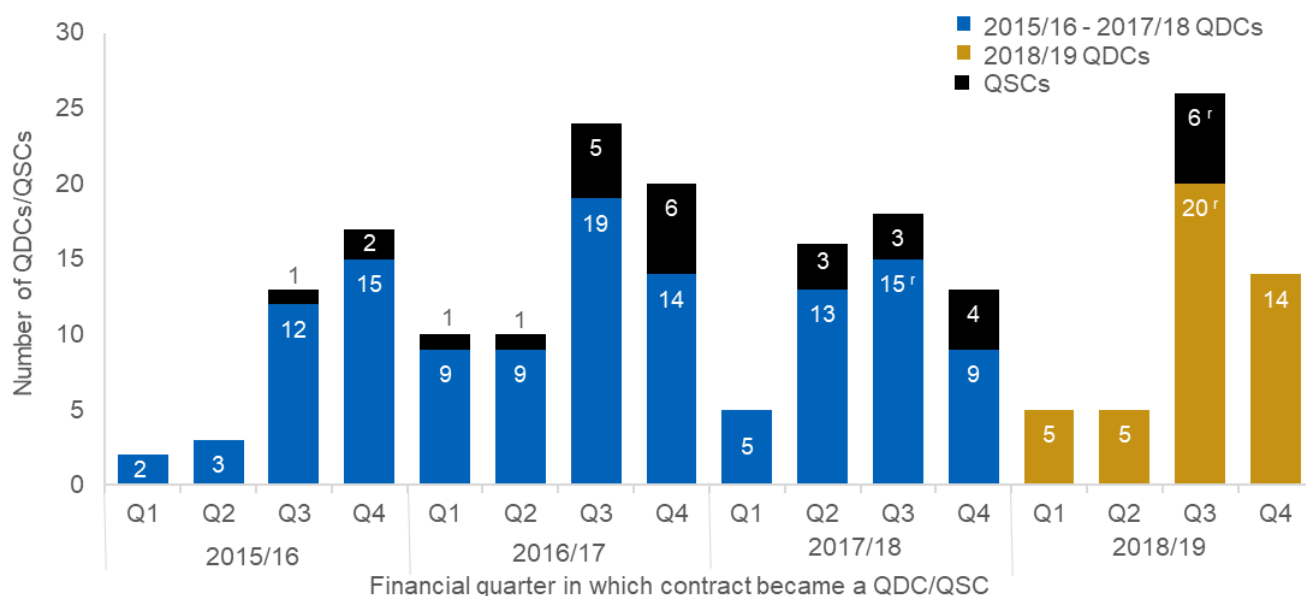
11 QDCs/QSCs with contractors that identify as an SME

Number, duration and SME involvement

The number and average duration of QDCs/QSCs as well as the number of QDCs/QSCs with SMEs.

- In 2018/19, the SSRO received initial contract reports for 50 QDCs/QSCs.
- Since 1 April 2015, the SSRO had received reports for 201 QDCs/QSCs.
- 11 of these 201 QDCs/QSCs were with contracting companies that identified as a small or medium enterprise (SME).
- The average (mean) estimated contract duration was 4.4 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 201 QDCs/QSCs as of 30 April 2019 (169 QDCs and 32 QSCs). There were 44 QDCs and 6 QSCs in 2018/19, compared to 42 QDCs and 10 QSCs in 2017/18. These 201 contracts were awarded to 98 different contracting companies.

Duration

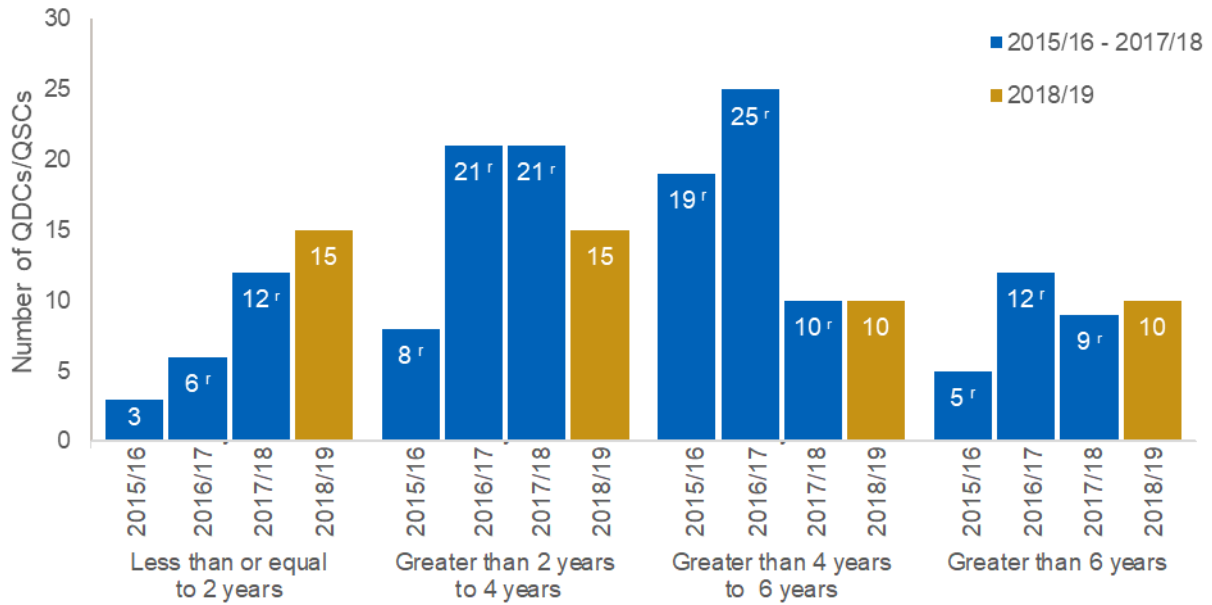
The average (mean) estimated duration of QDCs/QSCs has increased this financial year, from 3.9 years in 2017/18 to 4.3 years in 2018/19 (see Table 1). The average estimated duration across all QDCs/QSCs was 4.4 years.

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

	Average duration (years)
2015/16	4.7
2016/17	4.7 ^r
2017/18	3.9
2018/19	4.3
Overall	4.4

The proportion of QDCs/QSCs with a shorter estimated duration (less than 4 years) has increased since those entered into at the start of the regime, as can be seen in Figure 2. In 2015/16, 31 per cent of QDCs/QSCs were estimated to be completed in less than 4 years, and this is compared with 60 per cent in 2018/19.

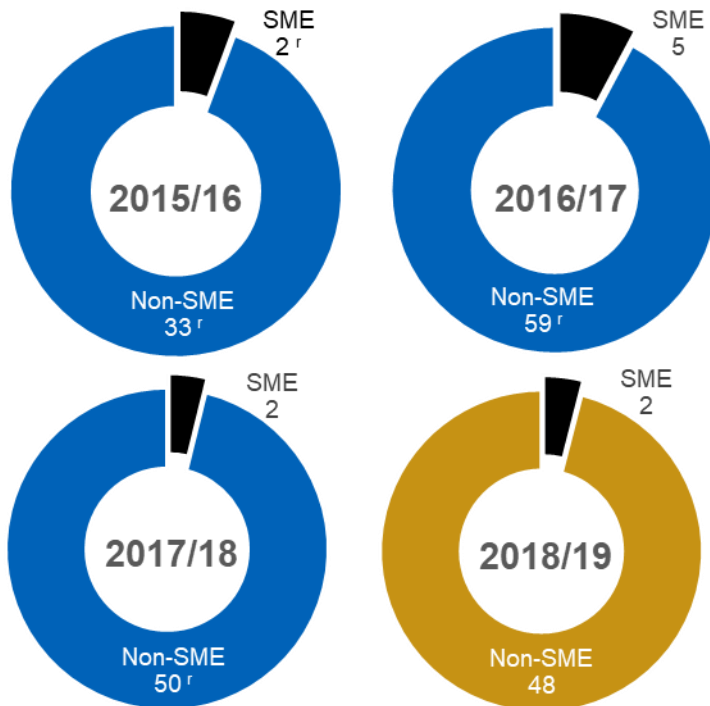
Figure 2: Number of QDCs/QSCs by estimated duration



Small and Medium Enterprises (SMEs)

Figure 3 below shows, of the 201 QDCs/QSCs, how many were contracted with small or medium enterprises (SMEs), as reported by contractors. In 2018/19, 4 per cent of QDCs/QSCs were with an SME. Overall, 5 per cent of all QDCs/QSCs were contracted with an SME.

Figure 3: Proportion of QDCs/QSCs that are contracted to SMEs



Price and pricing methods

The total estimated contract price of QDCs/QSCs, split by Allowable Costs and profit, and the contract pricing methods employed.

Summary

- In 2018/19, the total estimated price of QDCs/QSCs was £3.8 billion (£3.5 billion of Allowable Costs, £0.3 billion of profit).
- Since 1 April 2015, the total price of QDCs/QSCs was £26.8 billion (£24.3 billion of Allowable Costs, and £2.5 billion of profit).
- Across all years, the majority (147) 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, with 42 per cent of contract price attributed to this pricing method.

Figure 4: Estimated stock of total contract price of QDCs/QSCs by financial year in which contract became a QDC/QSC¹

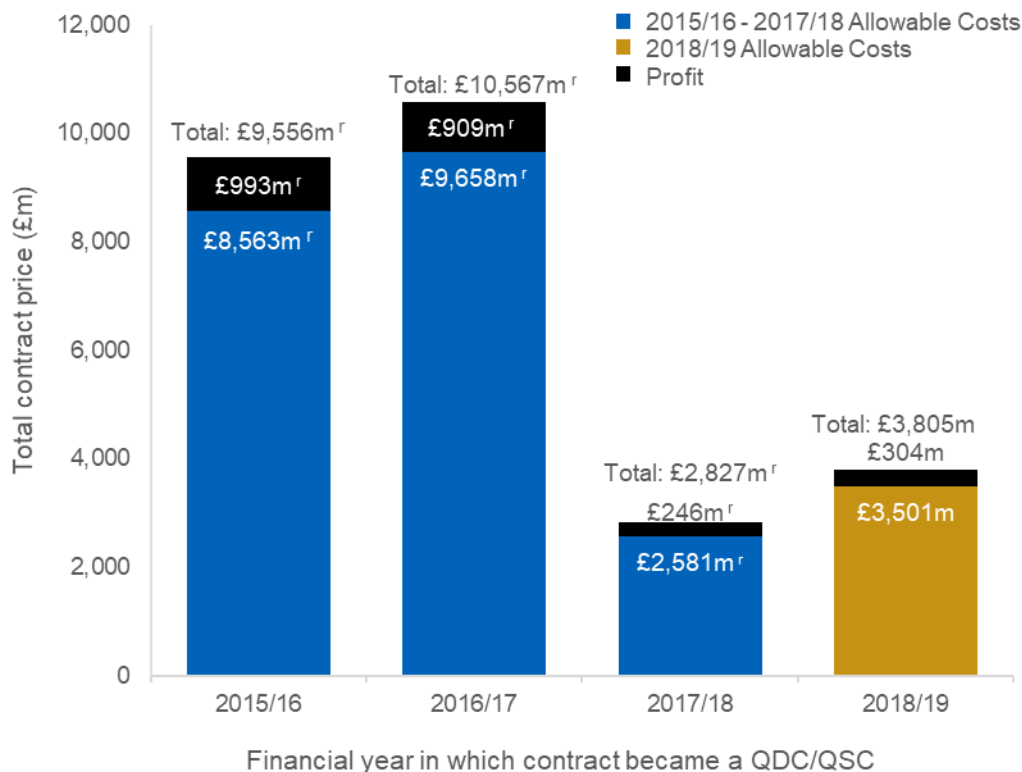
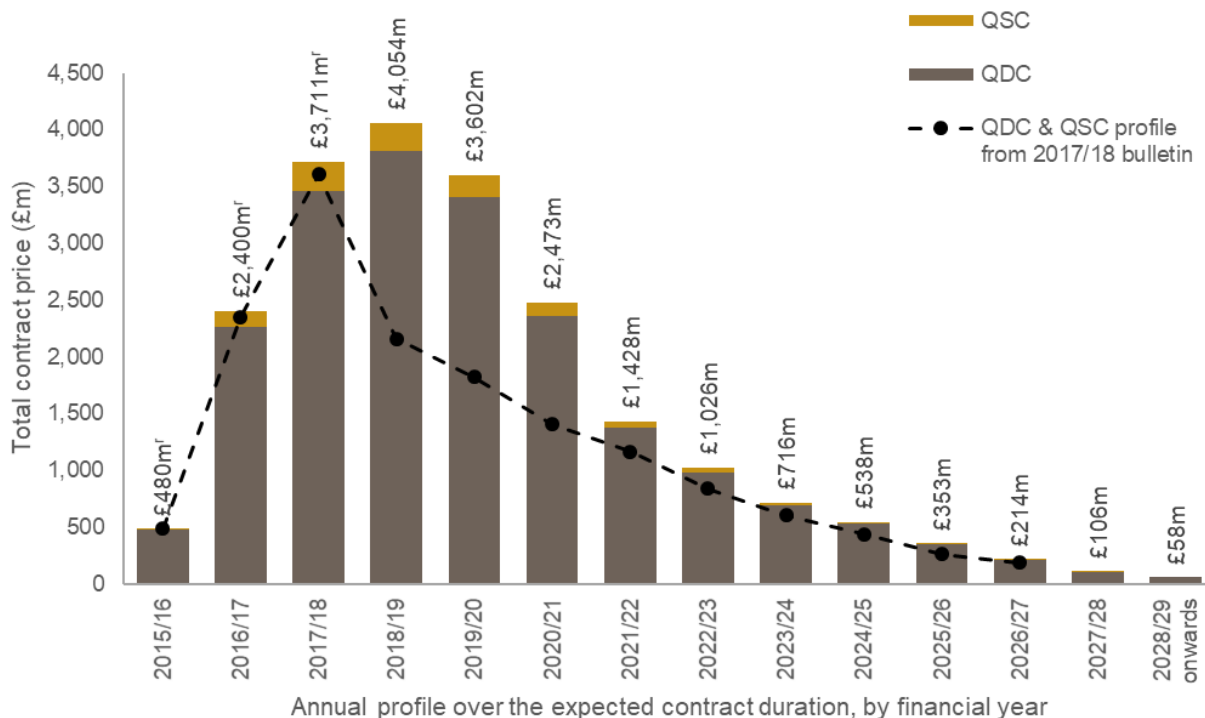


Figure 4 shows the stock of the total contract price by financial year in which the contract became a QDC/QSC. The total estimated contract price for contracts that became QDCs/QSCs in 2018/19 was higher than in the previous year, with £3.8 billion in 2018/19, compared to £2.8 billion in 2017/18. Please note that the total contract price may sometimes include costs incurred before the contract became a QDC/QSC ('sunk costs').

¹ 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.

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 2019



Note: Financial years from 2028/29 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. The 'profile from 2017/18 bulletin' series is as reported in the previous annual bulletin, and so has not been updated for any corrections or any late submissions made within the last year.

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 2018/19, 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 expect to complete. Only 36 of the total 201 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, as evidenced by the 'QDC & QSC profile from 2017/18 bulletin' included for comparison. 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, for example where there are sunk costs. The data above accounts for £21.2 billion of the £26.8 billion total estimated contract price reported to date across all financial years.

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

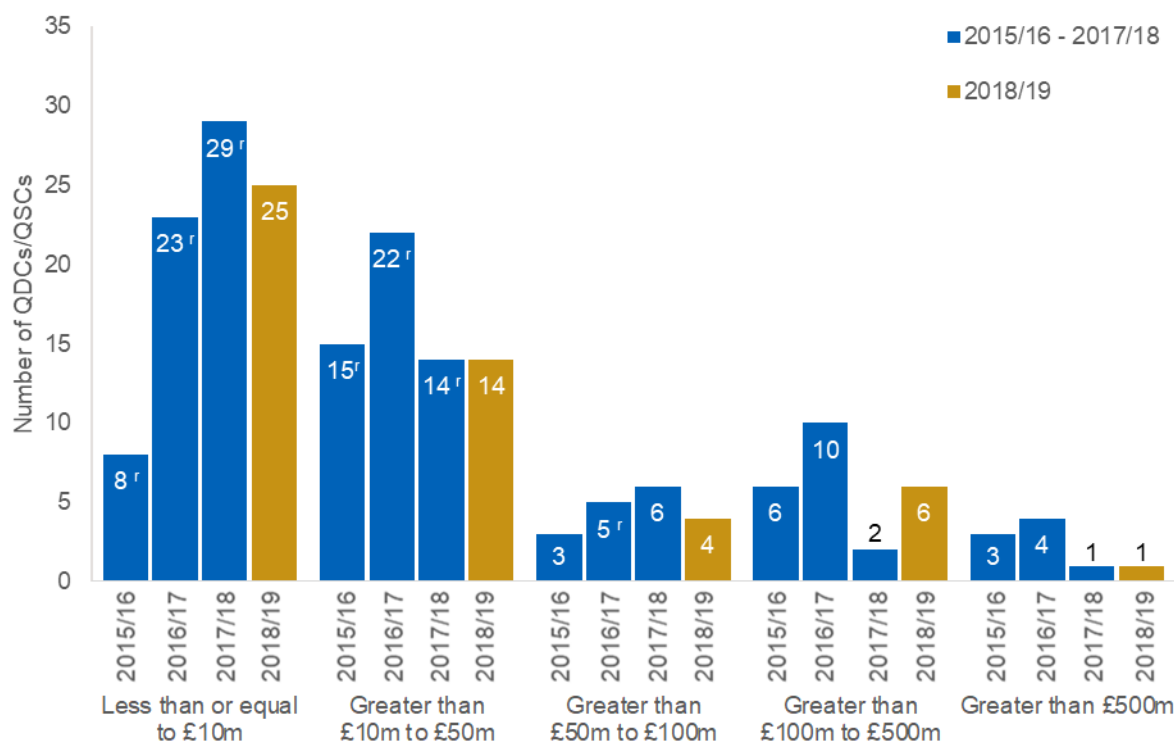


Figure 6 shows the number of QDCs/QSCs by price band and by financial year in which the contract became QDC/QSC. In all years, the lower price bands of 'less than or equal to £10m' and 'greater than £10m to £50m' bands were the two most common price bands. In 2018/19, there is only one QDC/QSC with an 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 paper².

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. Four contracts did not provide any pricing method data, and so have been excluded from analysis in this section. Figure 7 presents the number of QDCs/QSCs

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

Annual qualifying defence contract statistics: 2018/19

that used each of the top 10 most frequently reported regulated pricing methods, or combination of pricing methods. The single most reported pricing method across all three financial years was firm pricing, with 106 out of 197 QDCs/QSCs utilising this method as the sole pricing method for the contract. A further 41 QDCs/QSCs used firm pricing in combination with other pricing method(s). For further detail on how many contracts used each of the pricing methods in at least a proportion of the contract, please see Figure 7a in the accompanying data book.

Out of the 197 QDCs/QSCs where pricing method data was provided, the majority (144 QDCs/QSCs; 73 per cent) reported only using one regulated pricing method in the pricing of the contract, whilst 46 QDCs/QSCs reported using two pricing methods (23 per cent). There were seven QDCs/QSCs that reported using three or more different pricing methods (4 per cent).

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

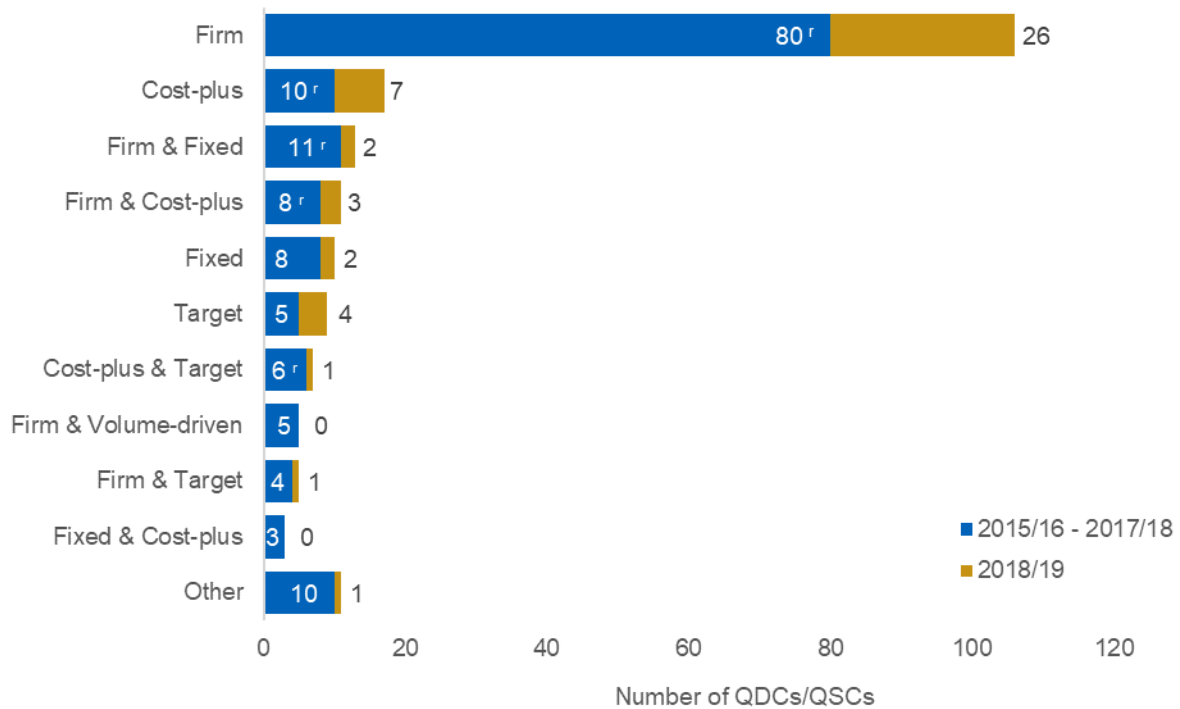
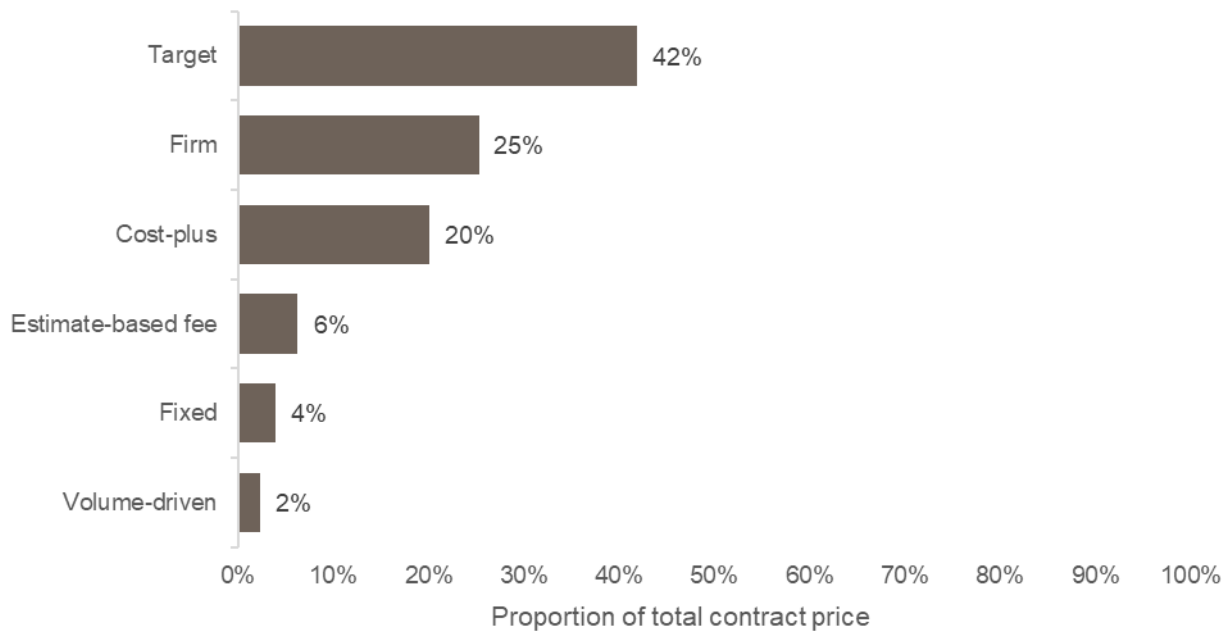


Figure 8 presents the proportion of the contract price attributed to each of the pricing methods across all QDCs/QSCs. It shows that, across the four years, target pricing was the pricing method with the highest contract price associated with it (42 per cent). Volume-driven pricing was the least utilised 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

Estimated contract profit rates, including the adjustments made to the baseline profit rate, and the variation seen across QDCs/QSCs.

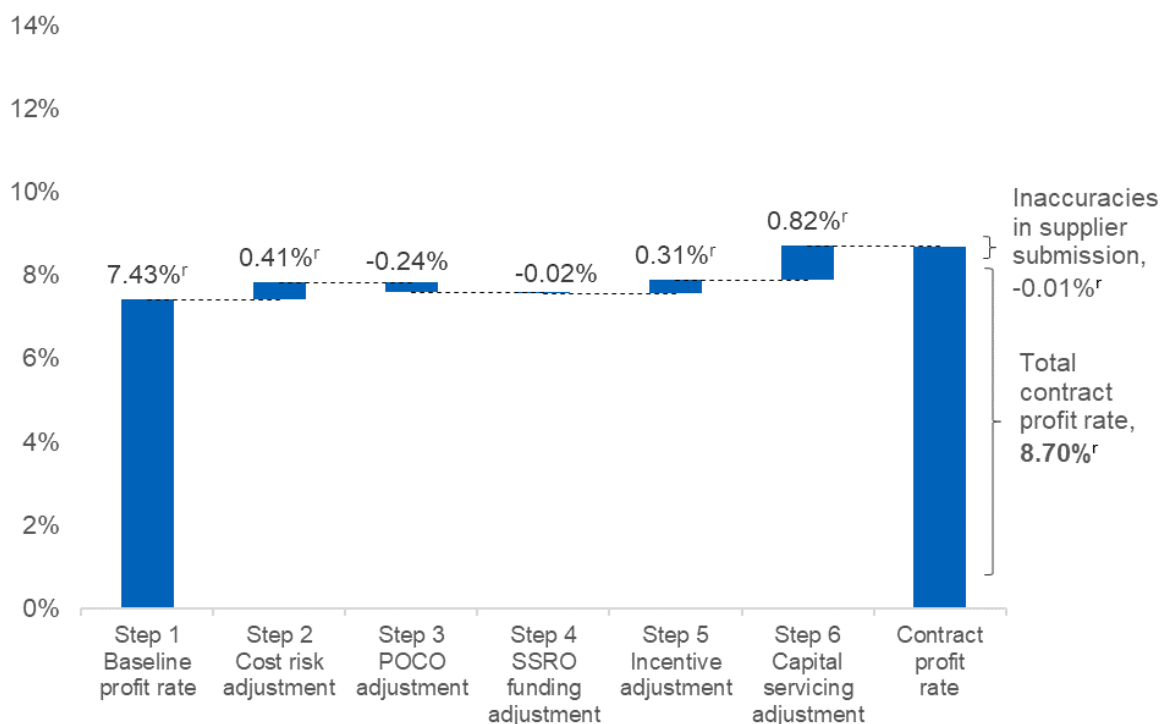
Summary

- In the 2018/19 financial year (between 1 April 2018 and 31 March 2019), the average contract profit rate was 8.51 per cent, compared to 8.70 per cent in 2017/18 QDCs/QSCs, an average reduction of 0.19 percentage points.
- Aside from the baseline profit rate, the adjustment with the most impact on the contract profit rate was the capital servicing adjustment in all financial years. The average capital servicing adjustment was 0.97 percentage points in 2018/19 QDCs/QSCs.
- Of the 200 QDCs/QSCs that submitted profit information across all financial years, 17 (9 per cent) had reported a profit-on-cost-once (POCO) adjustment, whilst 42 (21 per cent) had reported an incentive adjustment.

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*³. 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. One QDC/QSC did not provide any profit rate step data, and so it has been excluded from the analysis in this section.

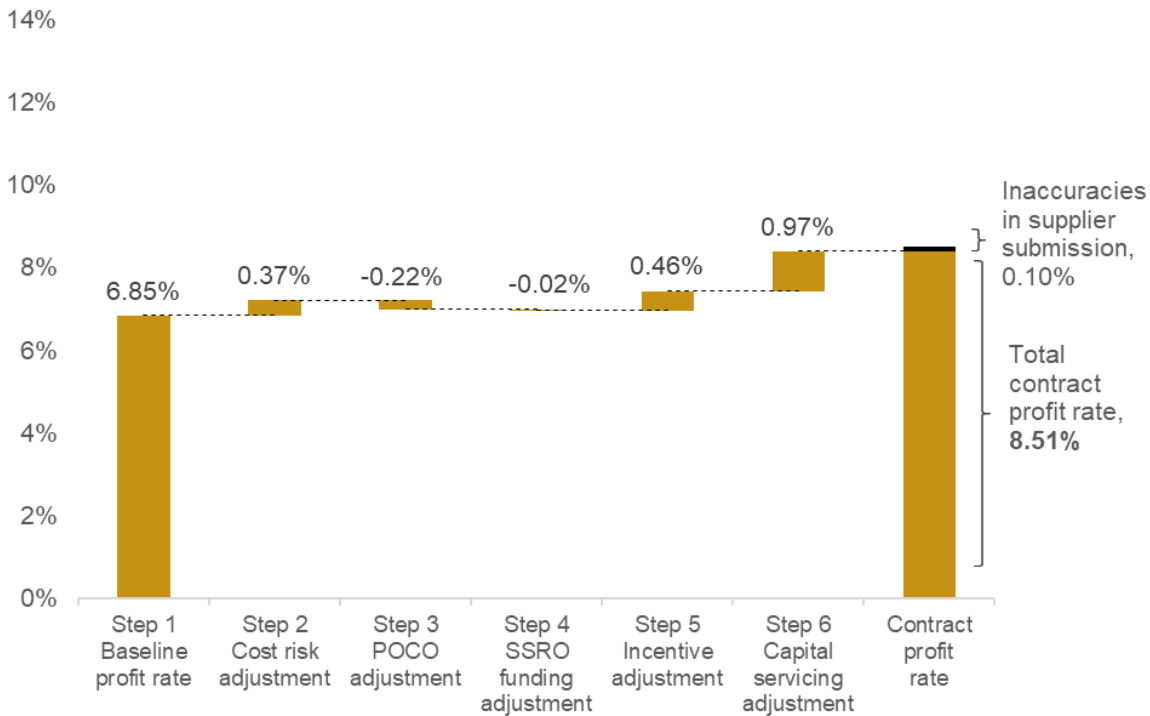
Figure 9 and Figure 10 below show the average (mean) adjustments made to the baseline profit rate for each profit rate step, for the contracts that became QDCs/QSCs in 2017/18 and 2018/19 respectively.

Figure 9: Average (mean) profit rate steps agreed at date contract became a QDC/QSC, for 2017/18 QDCs⁴



³ <https://www.gov.uk/government/publications/guidance-on-the-baseline-profit-rate-and-its-adjustment-version-5>

Figure 10: Average (mean) profit rate steps agreed at date contract became a QDC/QSC, for 2018/19 QDCs⁴



The average contract profit rate was lower in 2018/19, decreasing by 0.19 percentage points compared to 2017/18 QDCs/QSCs. During the same period the baseline profit rate set by the Secretary of State reduced by 0.65 percentage points from 7.46 per cent to 6.81 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 baseline profit rate between 2018/19 contracts and 2017/18 contracts was 0.58 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 0.82 per cent in 2017/18 to 0.97 per cent in 2018/19, an increase of 0.15 percentage points. The cost risk adjustment, which may range between +/- 25 per cent of the baseline profit rate, was the only profit rate step where the average decreased this financial year (other than the baseline profit rate), by 0.04 percentage points. The mean contract profit rate across all 200 QDCs/QSCs in all financial years was 9.74 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 80 per cent to 92 per cent of the contract profit rate between 2015/16 and 2018/19, as evidenced in Figure 11 below. The second most significant adjustment was the capital servicing adjustment. The contribution of the incentive adjustment has steadily increased, from 2 per cent in 2015/16 to 5 per cent in 2018/19.

⁴ 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

Figure 11: The contribution of each profit rate step towards the average contract profit rate⁵

Profit rate step	2015/16	2016/17	2017/18	2018/19
Baseline profit rate	92%	83% ^r	85% ^r	80%
Cost risk adjustment	2%	3% ^r	5%	4%
Profit-on-cost-once adjustment	-2%	0%	-3%	-3%
SSRO funding adjustment	0%	0%	0%	0%
Incentive adjustment	2%	3%	4% ^r	5%
Capital servicing adjustment	9%	11%	9% ^r	11%
Other (reporting issues)	-3%	0% ^r	0% ^r	1%
Contract Profit Rate	100%	100%	100%	100%

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 200 QDCs/QSCs analysed. Overall, the majority (83 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. In the most recent financial year, 16 per cent of contracts agreed a contract profit rate below the baseline profit rate.

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

	QDCs where the contract profit rate is equal to or above the baseline profit rate		QDCs where the contract profit rate is below the baseline profit rate	
	Number	%	Number	%
2015/16	27	77	8	23
2016/17	56 ^r	88 ^r	8 ^r	13 ^r
2017/18	40 ^r	78 ^r	11 ^r	22 ^r
2018/19	42	84	8	16
Overall	165	83	35	18

Figure 12 and Figure 13 below shows the maximum, minimum and median values reported for each of the profit rate adjustments (excluding the baseline profit rate and SSRO funding adjustment, which are fixed values), and the contract profit rate, for each year. The contract profit rate of QDCs/QSCs in 2018/19 ranged from 3.1% to 12.4%. In 2018/19 QDCs/QSCs, the profit step with the widest range was the POCO adjustment (between zero percentage points and -5.2 percentage points). This was the same in 2017/18 (between zero and -3.9 percentage points). The use of a POCO adjustment would only be in contracts where there is group sub-contracting. The profit rate data is as reported by contractors, with no adjustments made for known data errors.

⁵ 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.

Figure 12: Maximum, minimum and median values of profit rate steps reported in individual QDCs/QSCs, 2015/16 and 2016/17

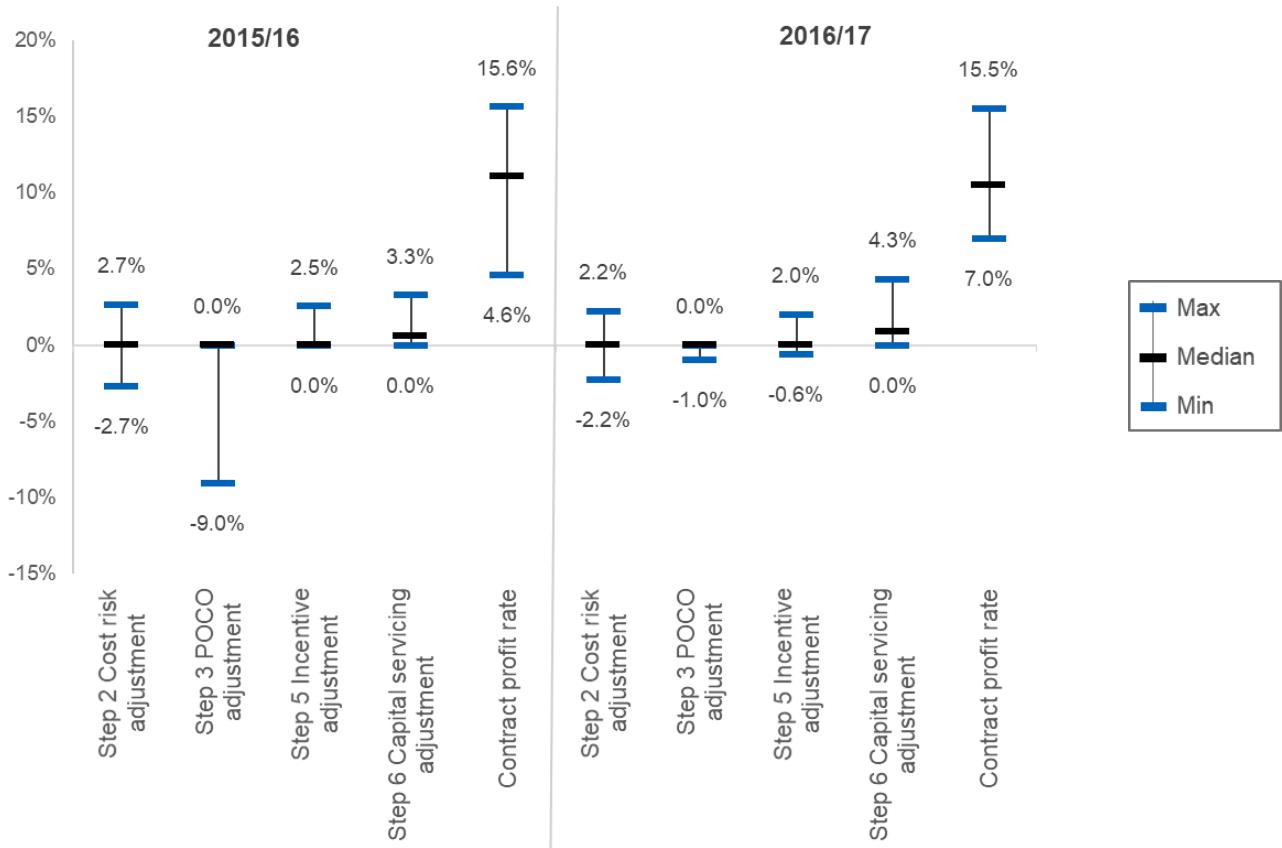
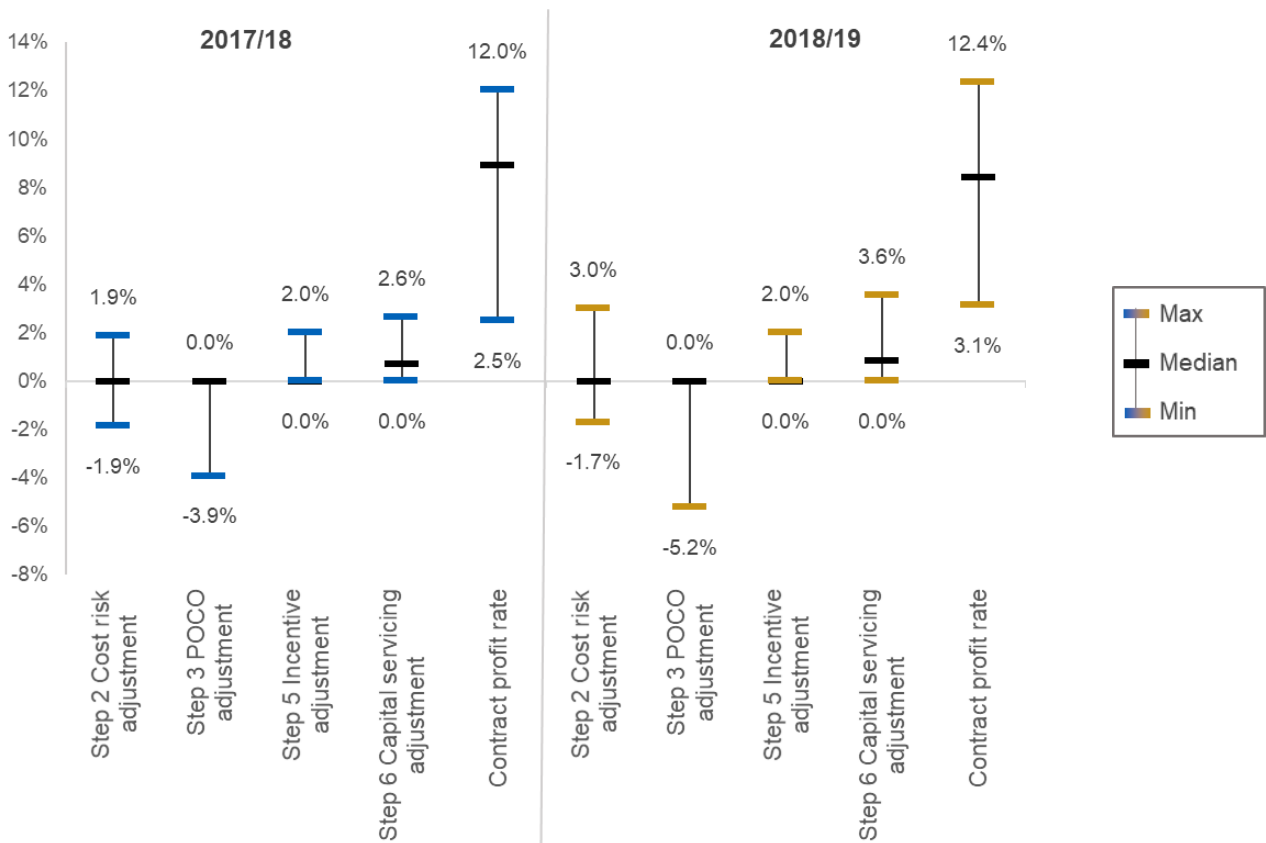


Figure 13: Maximum, minimum and median values of profit rate steps reported in individual QDCs/QSCs, 2017/18 and 2018/19



Annual qualifying defence contract statistics: 2018/19

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 2018/19, the proportion of QDCs/QSCs reporting an incentive adjustment has increased; 30 per cent in 2018/19, compared to 18 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	2	6	4	11
2016/17	64 ^r	6	9 ^r	14 ^r	22 ^r
2017/18	51 ^r	5 ^r	10 ^r	9 ^r	18 ^r
2018/19	50	4	8	15	30
Overall	200	17	9	42	21

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

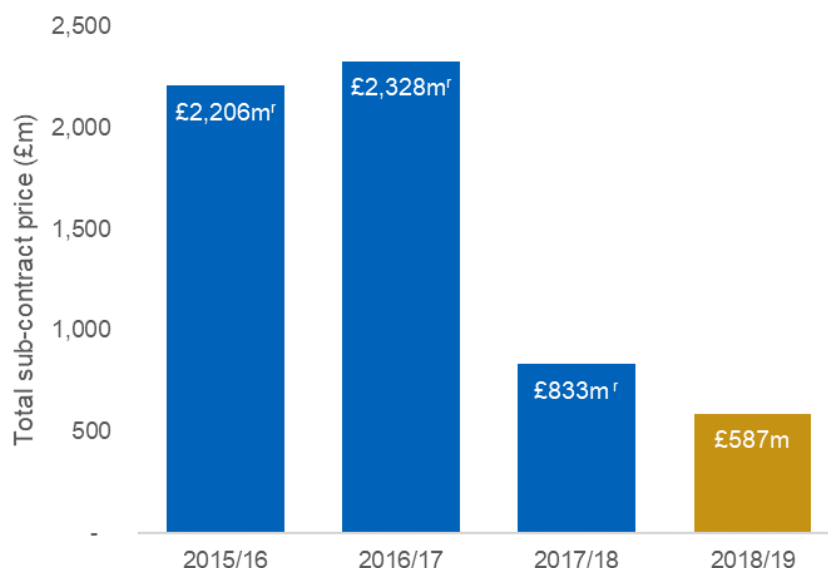
- The number of reported sub-contracts (the 20 highest value priced at greater than £1 million in each QDC/QSC) increased in 2018/19 QDCs/QSCs to 86, from 68 sub-contracts in 2017/18 QDCs/QSCs.
- The total price of reported sub-contracts decreased from £833 million in 2017/18 to £587 million in 2018/19, despite an increase in the total QDC/QSC price in this time period.
- The number of reported sub-contracts with SMEs as a proportion of total sub-contracts increased slightly (19 per cent in 2017/18 QDCs/QSCs, and 23 per cent in 2018/19 QDCs/QSCs).
- The average price of a sub-contract with an SME was £5.8 million, compared to an average for sub-contracts with non-SMEs of £14.1 million.

The SSRO receives partial data on the details of 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 this 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 460 sub-contracts with a value greater than £1 million reported to the SSRO: 130 in 2015/16, 176 in 2016/17, 68 in 2017/18 and 86 in 2018/19. The proportion of these sub-contracts that were with SMEs has been steadily increasing year on year, from 8 per cent in 2015/16 to 23 per cent in 2018/19. In total, there were 65 sub-contracts with SMEs.

Figure 14 below shows the total reported price of all reported sub-contracts, by financial year. The total value of sub-contracts in 2018/19 was less than that seen in 2017/18, despite the total price of QDCs/QSCs increasing. As a proportion of total contract price, reported sub-contracts accounted for 29 per cent in 2017/18, compared to 15 per cent in 2018/19.

Figure 14: Total price of top 20 reported sub-contracts above £1 million, by financial year in which contract became a QDC/QSC



Annual qualifying defence contract statistics: 2018/19

Figure 15 and Figure 16 show the number and price of reported sub-contracts split by price bands. 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 12 per cent of the number of reported sub-contracts, but 57 per cent of the total sub-contract price. In 2018/19 QDCs/QSCs, the mean reported sub-contract price was £6.8 million, down from 2017/18 where the average was £12.3 million.

Figure 15: Number of top 20 reported sub-contracts above £1 million, by price band and financial year in which contract became a QDC/QSC

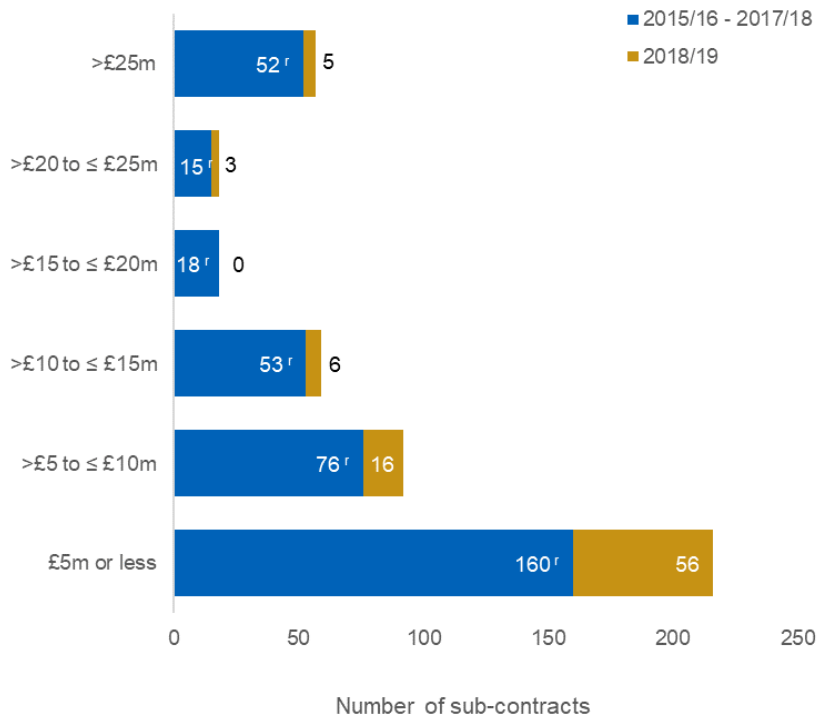
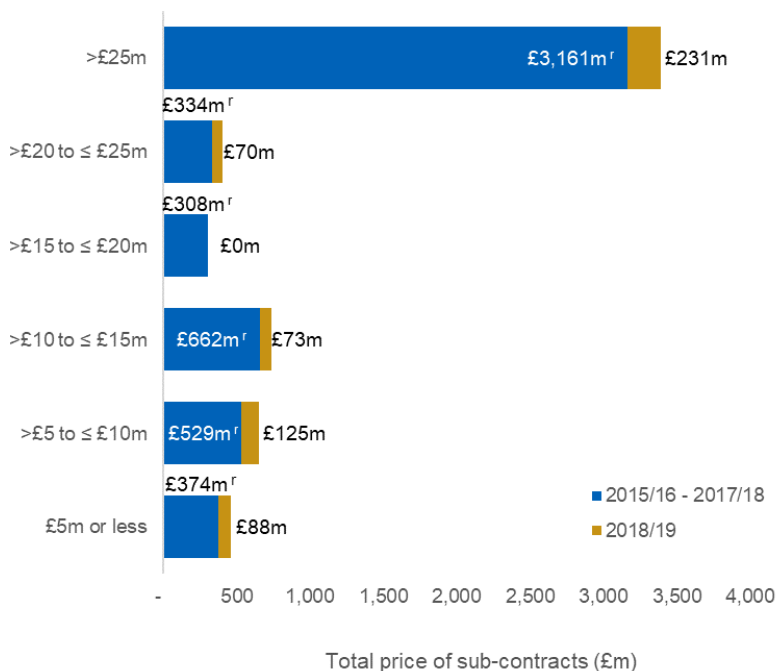


Figure 16: Total estimated price of top 20 reported sub-contracts above £1 million, by price band and financial year in which contract became a QDC/QSC



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 and sub-contracts statistics reflect the latest agreed position (when the contract was either 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 website⁶. 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 date⁷) 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 2019 have been included in this release and relates to data submitted or notified to the SSRO by 30 April 2019.

Contracts that have submitted a Contract Completion Report, indicating that the contract has now completed, are still included in the analysis. The SSRO is aware that stakeholders are interested in new statistics specifically looking at these contracts that have now completed. Currently, there are only a small number of contracts that have submitted Contract Completion Reports (six contracts), and so it was decided not to introduce these statistics until there is more data available. The SSRO will review this in the 2019/20 financial year and will engage with stakeholders on the approach to developing statistics.

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. Where a contract has submitted a Contract Completion Report, the price, cost and profit rate are still as at the latest time of agreement, rather than the actual values achieved. All figures are provisional and may be updated in future planned 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'.

Where errors are found in the statistics, or where there are significant changes to published data that might affect the utility of the statistics, the SSRO may correct these by reissuing the

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

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

Annual qualifying defence contract statistics: 2018/19

publication, outside of the scheduled statistical release programme. Where this happens, the reason and impact of the revision will be given.

Update (15 August 2019): The total number of 2017/18 QDCs/QSCs used for analysis in Table 3 has been corrected, from 52 to 51. Some of the percentages in other columns, and in the Total row, have also changed as a result. As explained in the 'Profit' section of the bulletin, one QDC/QSC is excluded from the profit rate analysis, as it did not provide any profit rate step data. This correction therefore makes Table 3 consistent with all other analysis in this section. This is the only table affected, and its impact is considered minor.

Update (18 February 2020): Corrected a typo on the infographic on page 2 in relation to the number of QDCs/QSCs with SME contractors. This now better aligns with the statistic in Figure 3.

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

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

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).

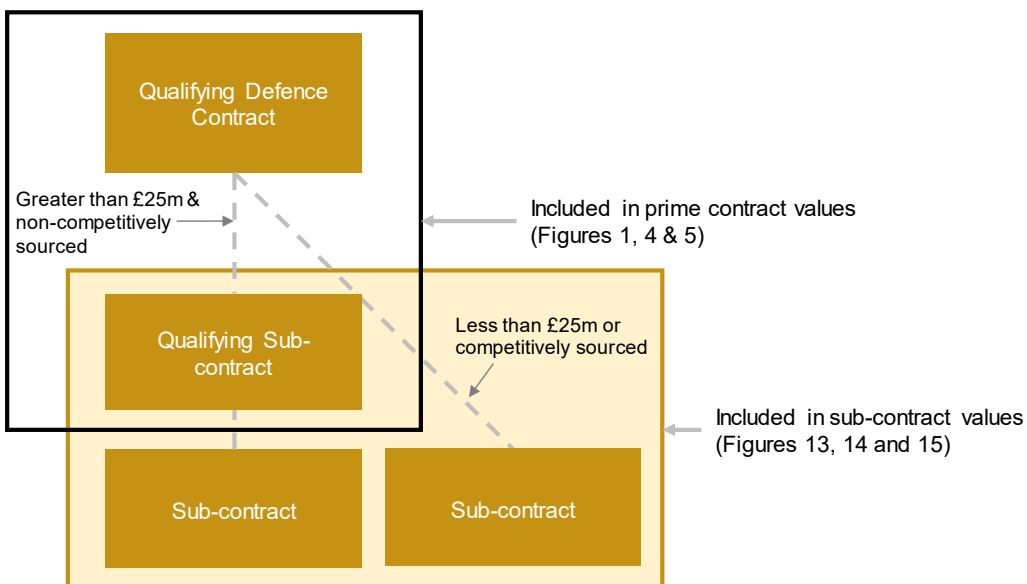
The average contract profit rates are an arithmetic mean of the reported contract profit rates reported by QDCs/QSCs within that financial year. Where an adjustment does not apply (as is the case with the POCO adjustment for many QDC/QSCs), this is treated as a zero in the calculations.

Average contract duration is an arithmetic mean 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 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 website⁸.

⁸https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/711223/SSRO_Commercially_Sensitive_Information_Handling.pdf

Open Government Licence

OGI This information is licensed under the Open Government Licence v3.0. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or write to the Information Policy Team, The National Archives, Kew, Richmond, Surrey, TW9 4DU.

A licensee must acknowledge the source of the information by including the following attribution statement: "Contains public sector information licensed by the SSRO under the Open Government Licence v3.0"

Further information

The SSRO is committed to engaging with stakeholders to improve these statistical releases. If you would like to get in touch, please email us at helpdesk@ssro.gov.uk. The SSRO is also happy to receive feedback through regular face-to-face engagement it conducts with stakeholders.