

# SSRO

Single Source  
Regulations Office

## Recommendation factsheet

Under the Defence Reform Act 2014 (the ‘Act’), 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.

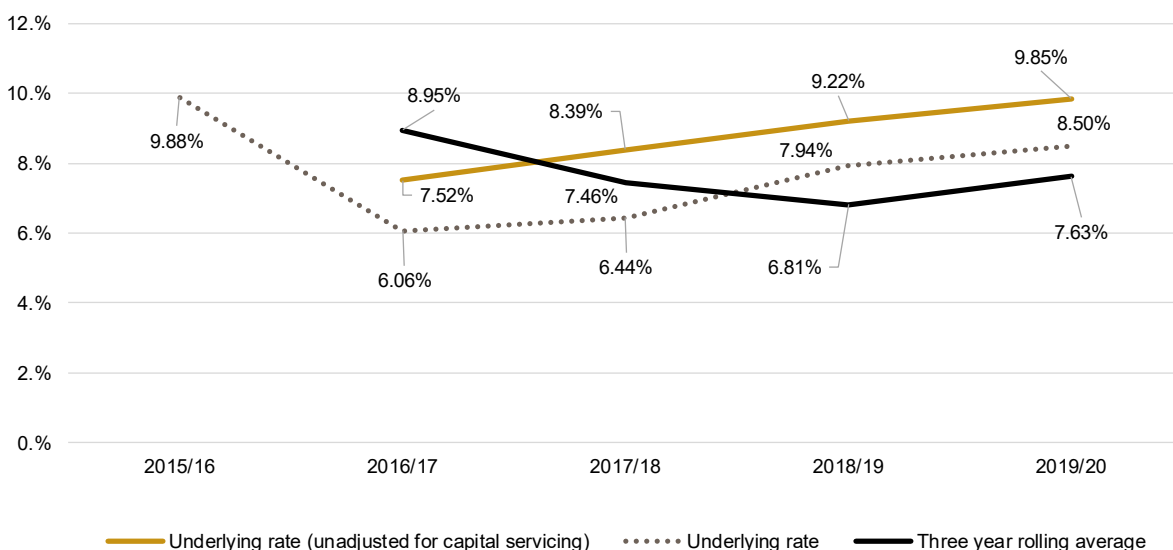
The baseline profit rate is calculated from an index of public and private companies. The rate is a composite that combines search results from the “Develop and Make” and “Provide and Maintain” activity groups. The underlying rate is the average of the median capital servicing adjusted profit on cost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

	2015/16	2016/17	2017/18	2018/19	2019/20
Underlying rate (unadjusted for capital servicing)	-	7.52%	8.39%	9.22%	9.85%
Capital servicing adjustment	-	-1.46%	-1.95%	-1.28%	-1.35%
Underlying rate	9.88%*	6.06%	6.44%	7.94%	8.50%
Three year rolling average	10.60%	8.95%	7.46%	6.81%	<b>7.63%</b>

*Note: The capital servicing (CS) adjustment accounts, at an aggregate level, for different levels of capital employed across the companies in the index.*

*\*Calculated using the Review Board’s methodology, which did not incorporate separate activity types or a separate presentation of capital servicing adjustments.*

### Median capital servicing adjusted return on cost of production



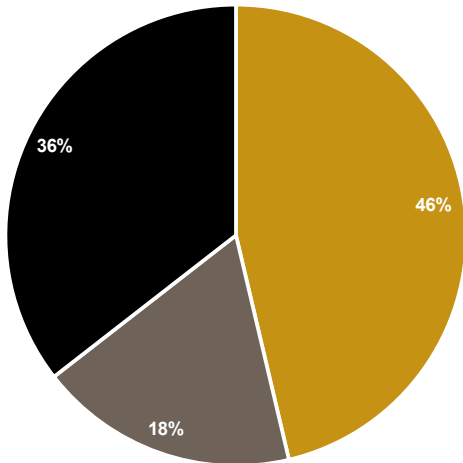
## Names of companies in the index

Aeon INC	Bevan Group Ltd	Cowles Holdings Limited	General De Alquiler De Maquinaria SA
AAR Corp	Boeing Company (The)	CPI Aerostructures INC	General Dynamics Corp
AB Volvo	Borgwarner INC	Cramo OYJ	Gentex Corp
Accuracy International Limited	Bradgate Containers (Holdings) Limited	CTT Systems AB	Gentherm INC
Ace Aeronautique	Bram-Cor S.P.A.	Cubic Corp	GHL Holdings Limited
Advanced Energy Industries INC	Brembo SGL Carbon Ceramic Brakes S.P.A. In Breve Bscob S.P.A.	Cummins Inc.	Gilbert Gilkes & Gordon Limited
Aerocentury Corp	Brooks Automation, Inc.	Curtiss Wright Corp	GKN PLC
Aerojet Rocketdyne Holdings, Inc.	Bruker Corporation	Cuypers Vorkliften	Gorman-Rupp Company (The)
Aerovironment, Inc.	BWX Technologies Inc.	CVD Equipment Corporation	Granada Material Handling Limited
Aggreko PLC	Byggesystemer Norge AS	Cyberoptics Corp	Gray & Adams (Doncaster) Limited
Aguirre Maquinaria Agricola SL.	C.M.A. - Costruzioni Montacarichi ED Ascensori - Societa' A Responsabilita' Limitata	Dallan S.P.A.	Greenbrier Companies INC
Air Lease Corporation	C.M.A. S.P.A.	Dana Incorporated	Guzzetti S.P.A.
Airbus SE	C.M.F. S.R.L.	Data I/O Corp	H&E Equipment Services, Inc.
Airtanker Services Limited	C.S.C. - S.P.A.	De Lama - S.P.A.	Haldex AB
Alamo Group INC	Caci International INC	Deere & CO	Hameen Rakennuskone Oy
Alexander Dennis Limited	CAE INC	Del BO Impianti S.R.L.	Harris Corp *
Allied Motion Technologies, Inc.	CAI International INC	Del Morino - S.R.L.	Heico Corp
Allison Transmission Holdings, Inc.	Calpeda S.P.A.	Deutz AG	Helidax
Alstom S.A.	Caprari S.P.A.	Diesel Tecnica S.R.L.	Hemaco SRL
Altra Industrial Motion Corp.	Carmanah Technologies Corp.	Dinolift Oy	Hermanos Toimil Garcia SL
Altran Technologies SA	Carpenteria Manessi S.R.L.	DOM SRL	Heroux-Devtek Inc.
American Axle & Manufacturing Holdings, Inc.	Carraro SPA	Douglas Dynamics, Inc.	Honeywell International INC
American Outdoor Brands Corporation	Castledon Ltd	Dublin Aerospace Limited	Hudson Technologies INC
American Shipping Company ASA	Caterpillar INC	Ducommun INC	Huntington Ingalls Industries, Inc.
Andritz AG	C-COM Satellite Systems Inc.	Dunphy Technology Limited	HWA AG
Antonio Carraro S.P.A.	Ceco Environmental Corp.	Durr AG	IDEX Corp
Aquasium Technology Limited	Chart Industries INC	DXP Enterprises INC	li-Vi INC
Artec Pulverisation	Chemring Group PLC	Esco Technologies INC	Indus Holding AG
Ashtead Group Public Limited Company	Ciemme Calabria S.R.L.	Espey Manufacturing & Electronics Corp	Industrias Maxi SA
Astec Industries INC	CMF Structures	Esterline Technologies Corp	Ingenieria Y Tecnicas De Montajes Lointek SL
Atlas Air Worldwide Holdings, Inc.	CNH Industrial N.V.	Etablissements Biebuyck	Ingersoll-Rand PLC
Atlas Copco AB	Co.Mec.El. Costruzioni Meccaniche Elettroniche S.R.L.	Eurotank Oy	Insta Group Oy
ATS Automation Tooling Systems Inc.	Cobham PLC	Falkvarv AB	Interroll Holding AG
Autoliv, Inc.	Codimag	FB Design S.R.L.	Intra Limited
Automazione Industriale B.R.C. S.P.A.	Cogeim Europe SRL	Fedegari Autoclavi - S.P.A.	Intricon Corporation
Avation PLC	Cognex Corp	Federal Signal Corp	Introsys - Integration For Robotic Systems - Integracao De Sistemas Roboticos, S.A.
Aviation Training International Limited	Cohort PLC	Fliir Systems INC	Jacobs Engineering Group Inc.*
Axcelis Technologies INC	Colosio S.R.L.	Flowserve Corp	James Fisher And Sons Public Limited Company
Axon Enterprise, Inc.	Colt Investments Limited	Forni Industriali Bendotti - S.P.A.	John Bean Technologies Corp
Babcock International Group PLC	Columbus Mckinnon Corp	Fracaroli E Balzan S.P.A.	John Nixon Limited
BAE Systems PLC	Comerio Ercole S.P.A.	Fraste S.P.A.	Julio GIL Agueda E Hijos SA
Bailey Trailers Limited	Commercial Vehicle Group, Inc.	Fratelli Mazzocchia S.P.A.	Kadant INC
Barnes Group INC	Construcciones Y Auxiliar De Ferrocarriles, S.A.	Futura Robotica SRL	Kaman Corp
Bavelloni S.P.A.	Continental AG	G.H.B. (Holding) Limited	Katsa Oy
BBA Aviation PLC	Cormach S.R.L.	Gaditana De Chorro Y Limpieza SL	Kbr, Inc.
Beretta Alfredo S.R.L.	Cosman - S.R.L.	Gama Aviation PLC	Kesla OYJ
		Gatx Corp	
		Gencor Industries, Inc.	

KMG Systems Limited	Nicolas Correa S.A.	S.T.M. - Societa' PER Azioni	Transdigm Group Incorporated
Koenig Und Bauer AG	Nogva Motorfabrikk AS	Saab AB	TTS Group ASA
Konecranes OYJ	Nordson Corp	Saf-Holland S.A	Ultra Electronics Holdings PLC
Kongsberg Gruppen ASA	Nortan S.R.L.	Safran	United Rentals INC
Kongsberg Terotech AS	Northrop Grumman Corporation	Saltire Energy Limited	United Technologies Corporation
L.B. - Officine Meccaniche - S.P.A.	Novanta INC	Samp S.P.A.	Univer S.P.A.
L.D.M. Officina Meccanica S.R.L.	Nuova Idropress - Societa' PER Azioni In Forma Abbreviata Nip S.P.A.	Sandvik AB	V.N.A. Trucks Limited
L3 Technologies INC	O.M.A.R. S.R.L.	Schmitt - Elevadores, LDA	Varian Medical Systems INC
Laxaa Specialvehicles Aktiebolag	O.M.V. - Officine Meccaniche Vicario S.P.A.	Science Applications International Corp	Venpa SUD SRL
Lecitrailer SA	Ocme - Societa' A Responsabilita' Limitata	Scisys PLC *	VMS (Holdings) Limited
Leidos Holdings, Inc.	Officina Meccanica F.Lli Tabarelli S.P.A.	Sele S.R.L.	Wabash National Corp
Leonardo S.P.A.	Officina Meccanica Sestese S.P.A.	Servotronics INC	Wabco Holdings Inc.
Loc'Hiam	Officine Bieffebi S.P.A.	Sfoggia Agriculture Division S.R.L.	Wacker Neuson SE
Lockheed Martin Corp	Officine Meccaniche Gallaratesi S.P.A.	Sicamb - S.P.A.	Wartsila OYJ
Luminex Corp	Officine Minelli S.R.L.	Smith Brothers (Leicester) Limited	Washtec AG
M.A.X. Automation AG	Ormet S.R.L.	Smiths Group PLC	Westinghouse Air Brake Technologies Corp
Macpresse Europa S.R.L.	Orrmac (NO 50) Limited	SnC-Lavalin Group INC	Whale Tankers Limited
Mactaggart Scott (Holdings) Limited *	Oshkosh Corporation	Societa' Industriale Costruzione Macchine Agricole S.P.A.- In Sigla S.I.C.M.A.-S.P.A.	Willis Lease Finance Corp
Magna International INC	Ovlac Fabricacion De Maquinaria Agricola SA	Spartan Motors INC	Witt & Son UK Holdings Limited
Malm Orstad AS	Oxford Instruments PLC	Speedy Hire PLC	Woodward, Inc.
Manitou BF SA	Oy Tamlans Ab	Spirit Aerosystems Holdings, Inc.	Worthington Industries INC
Manitowoc Company, Inc. (The)	Paccar INC	SPX Corp	Xylem Inc.
Marden Edwards Limited	Park Electrochemical Corp	Star Refrigeration Limited	Zago S.R.L.
Marel HF.	Parkburn Precision Handling Systems Limited	Sturm Ruger & CO INC	Zambello Riduttori 2 - S.R.L.
Maschinenfabrik Berthold Hermle AG	Paul Mueller Company	Supertino S.R.L.	Zambello Riduttori S.R.L.
Matteuzzi SRL	Pendennis Shipyard (Holdings) Limited	Systemair AB	
Mcgrath Rentcorp	Pentagas SRL	T Kverneland & Soenner AS	
Mediaco Marseille Provence	Polaris Industries INC	T.B. Group S.R.L.	
Meggitt PLC	Ponsse OYJ	T.V.Z. S.R.L.	
Mercury Systems INC	Power Torque Engineering Limited	TAI Milano S.P.A.	
Millutensil S.R.L.	Prima Industrie SPA	Talleres Ratera SA	
Mino S.P.A.	Qinetiq Group PLC	Teagle Holdings Limited	
MKS Instruments INC	Radley Engineering Limited	Technipes S.R.L.	
Modine Manufacturing CO	Ramirent OYJ	Techprecision Corp	
Molins Public Limited Company	Raytheon Company	Tecnodinamica S.R.L.	
Moog INC	Reductores Cunat SA	Teledyne Technologies Incorporated	
Mora S.P.A. - Carrelli Elevatori	Renew Holdings PLC	Tennant CO	
Morgan Advanced Materials PLC	Rheinmetall AG	Tenneco Inc.	
Moss SAS	Robor SRL	Terex Corp	
MS International PLC	Rockwell Automation, Inc.	Tesmec SPA	
MTS Systems Corp	Rockwell Collins INC	Textron INC	
MTU Aero Engines AG	Rodman Polyships SA	Thales SA	
Muehlhan AG	Rolls-Royce Holdings PLC	Thwaites Limited	
Nammo AS	Roper Technologies, Inc.	Tomra Systems ASA	
Nautic Center Sociedad Anonima	RWG (Repair & Overhauls) Limited	Tornos Holding S.A	
Navistar International Corp		Toromont Industries Ltd	
NC Engineering (Hamiltonsbawn) Limited		Toscotec S.P.A.	
NG Bailey Group Limited		Total Aircraft Product Support (Holdings) Limited	

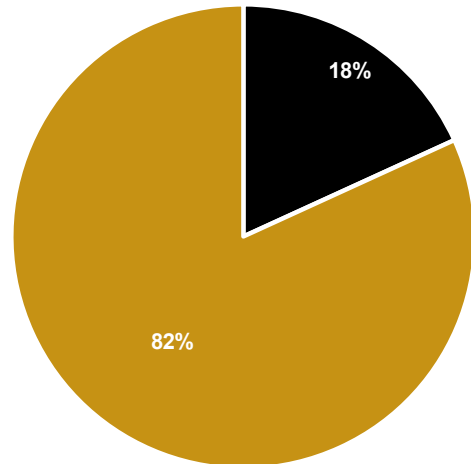
\*indicates new company for 2019/20

**Number of companies by country**



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

**Number of companies by defence as keyword**



- Defence
- Other

**Supplementary statistics**

Number of companies	353	Total capital employed (CE)	£254.18
Aggregate turnover	£925.31	Average company CP:CE ratio	3.24

Source: Bureau van Dijk – Orbis (Cash figures shown in GBP Billions)

## 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.

The CSA, and by implication the CSRs, serve two purposes:

- 1) to adjust the profit on cost of production of each company in the comparator groups. In most cases this has the effect that the underlying rate is lower than the unadjusted rate; and
- 2) at 'Step 6' of the contract profit rate, to account for capital employed at the contract level.

The CSRs are used to remove a measure of return on capital from each company in the comparator group and then later add back a return on capital at the contract level.

	2015/16	2016/17	2017/18	2018/19	2019/20
Fixed Capital Servicing Rate	5.94%	5.08%	4.84%	4.38%	3.98%
Positive Working Capital Servicing Rate	1.72%	1.40%	1.37%	1.21%	1.18%
Negative Working Capital Servicing Rate	1.03%	0.74%	0.59%	0.53%	0.53%

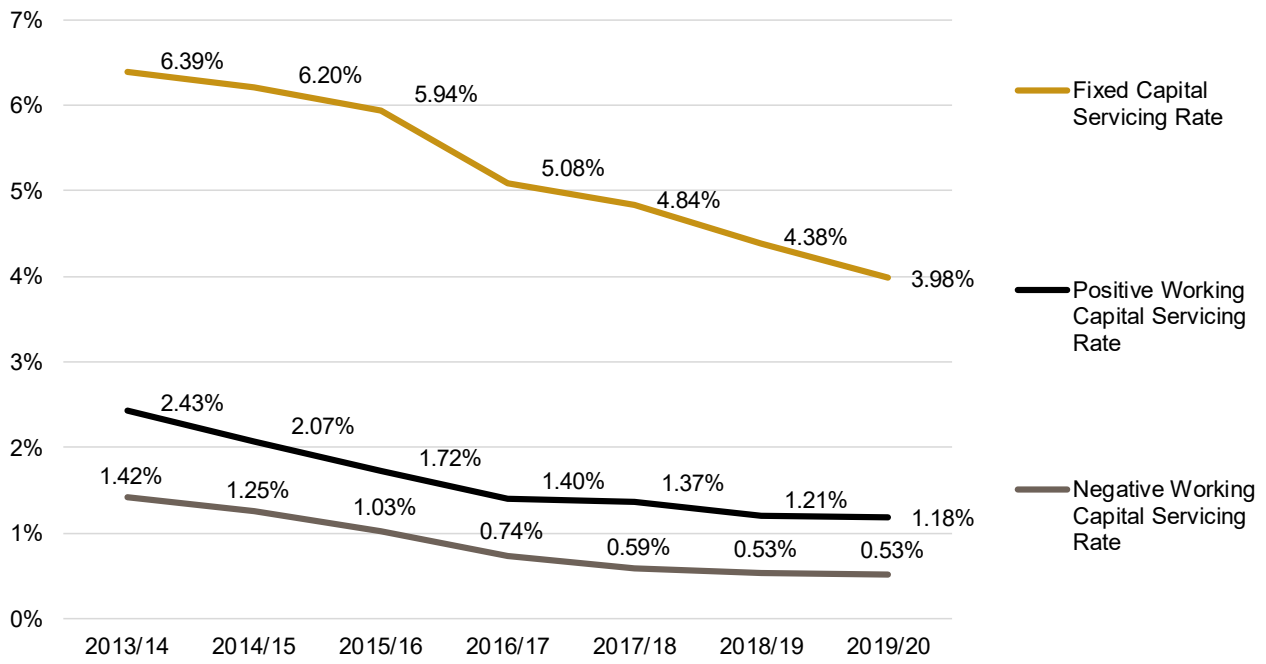
### Data sources

Positive Working Capital Servicing Rate	
'BBB GBP' bond	C4051Y INDEX
BBB Euro bond	C4681Y INDEX
'BBB- Euro' bond	C4691Y INDEX
'New BBB Euro' bond	BVCSE201 INDEX
'New BBB- Euro' bond	BVCSE101 INDEX
Negative Working Capital Servicing Rate	
Three-year average of <i>Monthly average of UK resident monetary financial institutions' (excl. Central Bank) sterling weighted average interest rate - time deposits with fixed original maturity &lt;=1 year from private non-financial corporations (in percent) not seasonally adjusted</i>	CFMBI32
Fixed Capital Servicing Rate	
'BBB GBP' bond*	C40515Y INDEX

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

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

Financial Year	2015/16	2016/17	2017/18
SSRO running costs (£million)	4.920	5.403	5.916
SofS task related SSRO expenditure (£million)	0.000	0.000	0.000
Total Allowable Costs of QDCs and QSCs (£million)	8,443.000	8,498.000	2,557.000

Recommendation		2019/20
SSRO running costs (£million) – 3-year average	a	5.413
SofS task-related SSRO expenditure (£million) – 3-year average	b	0.000
Total Allowable Costs of QDCs and QSCs (£million) – 3-year average	c	6,499.333
SSRO funding adjustment = ((a-b)/c)/2		<b>0.042%</b>

### Data sources:

The SSRO costs and the costs of additional tasks requested by the Secretary of State are the arithmetic averages of the three full financial years preceding the year of the recommendation.

The total value of QDCs is the arithmetic average of contracts entered into in the three full financial years preceding the year of the recommendation, as reported in the latest SSRO Qualifying defence contract statistics. Previous figures may be amended to reflect adjustments made in those statistics.

### SSRO funding adjustment history

