

SSRO

Single Source
Regulations Office

Annual Compliance Report 2018



The SSRO is an executive non-departmental public body, sponsored by the Ministry of Defence.

Contents

Introduction	3
Key messages	4
Contract information	6
Compliance	7
Future developments	20
Appendix 1: Information requirements of the statutory reports	21
Appendix 2: Data sources and methodology	24





Introduction

This report presents a commentary from our review of the report submissions made by contractors for the procurement of military goods, works and services.

This report brings together our work in respect of:

- the requirement under Section 36(2) of the Defence Reform Act 2014 (the Act) for us to keep under review the extent to which persons subject to reporting requirements are complying with them; and
- the requirement under Section 39(1) of the Defence Reform Act for us to keep under review the provision of the regulatory framework established by the Act and associated Single Source Contract Regulations 2014 (the Regulations).

In this report, we consider the extent to which persons subject to reporting obligations have complied with these obligations and set out, from our monitoring of the provision of the Act and Regulations, how the regime is operating. The report presents the issues that have been identified from our work, the key messages that can be drawn from this, and what actions have been, or need to be, taken as a result.

The reporting obligations under the Act and Regulations apply to defence contractors, so their compliance is a significant focus of the report. The SSRO seeks input from the MOD to help it understand the extent to which contractors are complying with reporting obligations and raises issues with the MOD, both about compliance and the way in which the system of pricing contracts is being applied. This report includes an analysis of issues that were referred to the MOD, along with a summary of the MOD's responses.

The publication of this report supports the delivery of our statutory functions. In undertaking our functions, we aim to meet our two statutory aims: to ensure that good value for money is obtained for the UK taxpayer in expenditure on qualifying defence contracts (QDCs), and that single source suppliers are paid a fair and reasonable price under those contracts.

Single source contractors are required to submit statutory reports on each of their qualifying contracts. The SSRO has developed the Defence Contracts and Reporting System (DefCARS), with input from the defence industry and MOD users, to provide an easy to use, secure means of submitting the reports. The analysis presented in this document is drawn from the data submitted into DefCARS.

Key messages

The SSRO had been notified of **152 Qualifying Defence Contracts (QDCs)** and Qualifying Sub-Contracts (QSCs) as at 31 March 2018.

As at 30 April 2018, reports had been submitted for **141 QDCs or QSCs**, which consists of 667 contract reports and 199 supplier reports.

The 141 contracts were placed with 70 individual contracting companies across a total of 46 Global Ultimate Owners.

Timeliness

- 76 per cent of contract reports and 82 per cent of supplier reports, submitted for the years 2015/16 to 2017/18, were submitted in accordance with the reporting timeframes set out in the Regulations. In general, contracting companies with more than a single QDC made more timely submissions, as did contracting companies that are not SMEs.
- We had not received initial contract reports for a total of 11 contracts due by 30 April 2018, our submission deadline for inclusion in this report. In nine instances the submissions had been outstanding for more than three months. We reported these as non-compliance matters to the MOD.
- We will continue to work to make the contract reporting process more familiar to new contractors, through on-boarding and training on the DefCARS system. Early engagement with the SSRO by contractors needs to continue and, where required, the MOD should use the compliance powers provided by the legislation.

Reporting obligations

- The SSRO queries potential errors that may impact data quality. As at June 2018, the SSRO had identified one or more potential issues in 74 per cent of the contract submissions made. Following initial discussion, the percentage with potential issues decreased to 40 per cent.
- Contractors have made progress on improving submission quality since the publication in October 2017 of the SSRO's Annual Report on the Single Source Regime. The number of queries on reports for contracts that became QDCs or QSCs in 2017/18 was significantly lower than those for 2016/17. However, there continues to be room for improvement in submissions, with in some cases basic contract details being reported on an incomplete or inconsistent basis.
- In total, since 2015/16 the SSRO has raised 2,853 queries with contractors regarding contract report submissions, and a further 218 issues on supplier reports. 2,489 (87 per cent) of the contract queries have been resolved to date.

The MOD has responded to all contract reporting issues referred to it by the SSRO in the period from April 2016 to June 2018, which is a significant milestone. The improvement in the timeliness of responses was largely concentrated in the period March to June 2018 and many were significantly delayed. This improvement should continue. This should be supported by advances in the MOD's processes and procedures for reviewing submissions and new functionality for logging issues in DefCARS itself.

- We will continue to use the information provided to us to keep the provisions of the Act under review, and to review the extent to which contractors are meeting their reporting requirements.
- We are committed to making the reporting process as efficient and clear as possible and are doing so through:
 - » ongoing improvements to DefCARS including the introduction of additional copy and paste functionality to help get the data right first time;
 - » continually improving our reporting guidance, prioritising key areas; and
 - » standardising our on-boarding process for new contractors and providing an annual programme of training sessions, to both contractors and the MOD, to improve their understanding of DefCARS and the legislative reporting requirements.
- We will continue to use the evidence base from the issues we have raised to better understand the difficulties faced by contractors in completing reports to make recommendations for legislative change.
- We will undertake a systematic programme of reviews of the data submitted in reports, starting with the Contract Pricing Statement and Contract Costs Statement, with the aim of understanding data utility alongside understanding what information is required and how best to report it. This will feed into our s39(1) review function.

Future developments

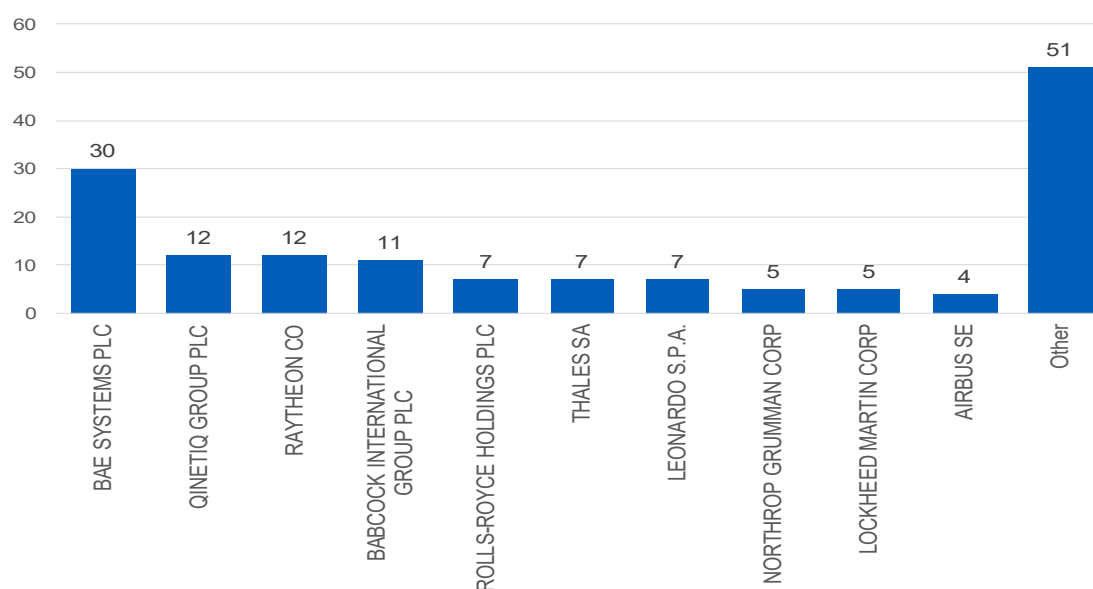
The SSRO and MOD are together adopting a more efficient, risk-based and proportionate approach to the application of the SSRO's compliance methodology. This has combined further automatic validation, greater reliance on verification by the MOD against contract information, thematic analysis and reports to support the SSRO's reviews of guidance and legislation and plans for spot checks by the SSRO of verification work undertaken by the MOD.

Contract information

This report considers all QDCs and QSCs entered into between 1 April 2015 and 31 March 2018, for which contract reports were received by 30 April 2018. As of 31 March 2018, the SSRO had been notified of 152 QDCs and QSCs, and as of 30 April 2018 (the cut-off date for inclusion of report information within this publication) the SSRO had received reports for 141 contracts.

The key statistics relating to these contracts have been reported in the SSRO's [Annual qualifying defence contract statistics: 2017/18](#) and the messages from that publication are not repeated here in detail.

Figure 1: number of QDCs / QSCs by the top ten Global Ultimate Owners



The MOD places single source contracts with a relatively limited range of defence contractors. Figure 1 sets out the distribution of the 152 QDCs and QSCs placed by top ten Global Ultimate Owner¹.

The 141 QDCs and QSCs were placed with a total of 70 individual contracting companies, across a total of 46 Global Ultimate Owners.

Table 1: Breakdown of QDCs and QSCs by year

Year	QDCs	QSCs	Total Qualifying Contracts with reports submitted
2015/16	32	3	35
2016/17	49	12	61
2017/18	36	9	45
Total	117	24	141

¹ The legislation refers to the 'Ultimate Parent Undertaking', however contract reports do not identify the Ultimate Parent Undertaking. The SSRO uses the Global Ultimate Owner (GUO) definition from the Orbis database, provided by Bureau van Dijk. This is defined as the individual or entity at the top of corporate ownership structure, however being a GUO does not necessarily imply being either a controlling owner or beneficial owner.

Compliance

This report considers the extent to which contractors are complying with regime reporting requirements and how this information is used by the SSRO to keep under review the provision of the Act and Regulations with respect to the pricing of contracts.

The Act places obligations on the SSRO to keep under review the regulatory framework and the extent to which organisations subject to reporting requirements are complying with them. The submission requirements are detailed in the Regulations and the SSRO provides guidance on the allowability of costs, adjustments to the baseline profit rate and on reporting which contractors and the MOD are required to have due regard to.

Contractor compliance against statutory reporting requirements is measured by using two specific indicators, as set out in the SSRO's published [compliance and review methodology](#):

- 1a) “All required reports have been submitted within the relevant deadlines”; and**
- 1b) “Reporting obligations have been met for all reports submitted in accordance with the Regulations and relevant statutory guidance”.**

1a) “all required reports have been submitted within the relevant deadlines”

For the 152 QDCs and QSCs reported as being entered into between the period 1 April 2015 and 31 March 2018, 702 contract reports and 233 supplier reports (a total number of 935 reports) were due in accordance with statutory deadlines by the end of April 2018. Appendix 1 details the information requirements of the statutory reports.

The SSRO had received 667 contract reports² and 199 supplier reports³ as at 30 April 2018.

Table 2: Receipt of contract reports

Report type	Number submitted	Number expected
Contract Initiation Reports (CIR), made up of Contract Notification Reports (CNR), Contract Reporting Plans (CRP) and Contract Pricing Statements (CPS)	423	456
Quarterly Contract Reports (QCR)	201	203*
Interim Contract Reports (ICR)	39	39*
Contract Completion Reports (CCR)	2	2
Contract Costs Statements (CCS)	2	2
Total	667	702

*excludes QCRs and ICRs where a CIR submission has not been made.

Table 3: Receipt of supplier reports

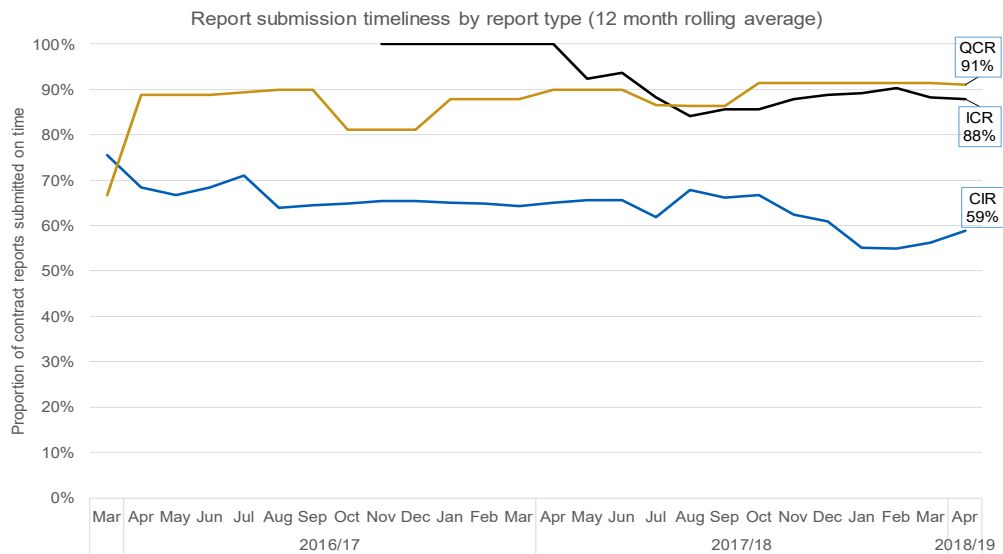
Report type	Number submitted	Number expected
Qualifying Business Unit Estimated Cost Analysis (QBUECAR)	37	38
Qualifying Business Unit Actual Cost Analysis (QBUACAR)	37	38
Estimated Rates Claim Reports (ERCR)	32	35
Actual Rates Claim Reports (ARCR)	31	35
Estimates Rates Agreements Pricing Statement (ERAPS)	32	35
Rates Comparison Reports (RCR)	4	4
Strategic Industry Capacity Reports (SICR)	13	24
Small or Medium Enterprises (SME)	13	24
Total	199	233

* analysis is based on those supplier report submissions which have been received and consideration of their timeliness.

² As required in line with Part 5 of the Single Source Contract Regulations

³ As required in line with Part 6 of the Single Source Contract Regulations

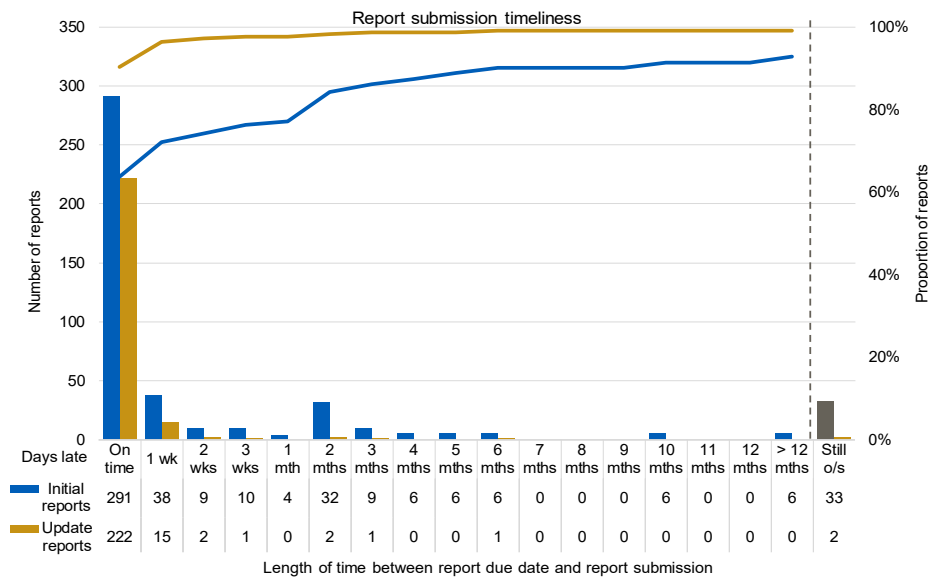
Figure 2: Analysis of contract report submission timeliness by report type



In total, 75 per cent of these reports were submitted in accordance with the reporting timeframes set out in the Regulations. This compares to the 78 per cent reported last year. Notably, while the QCR and ICR submissions were generally made on time, the CIR submissions were delayed in more cases. As outstanding reports continue to be further delayed, the average length of CIR delay increases.

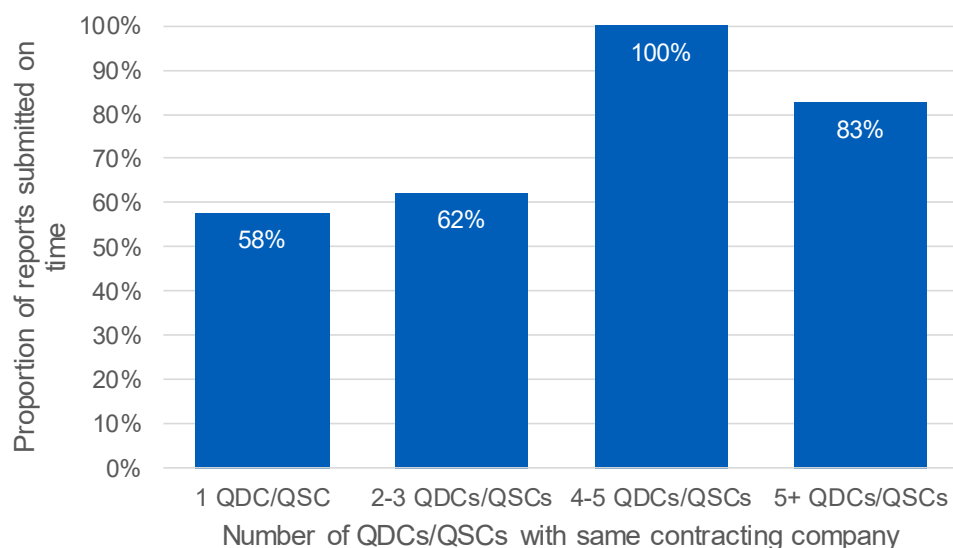
Most late submissions were made within two months of the reporting timeframes set out in the Regulations and only a few were delayed beyond this.

Figure 3: Analysis of the timeliness of contract report submissions



Analysis of the submitted data shows that, in general, contracting companies with more than a single QDC made more timely submissions of their contract reports.

Figure 4: Analysis of the timeliness of contract report submissions against number of QDCs / QSCs



In addition, the timeliness of a submission has often been impacted by whether a contracting company is an SME or not, as well as whether the company is UK based or not.

Table 4: Timeliness by SME status for contract report submissions*

Company type	Number QDCs / QSCs	% of reports submitted on time
Non-SME	131	79
SME	10	23

*SME status as self-identified within submissions

Table 5: Timeliness by geographical location for contract report submissions

Company type	Number QDCs / QSCs	% of reports submitted on time
UK based company	126	79
Non-UK based company	15	60

The CIR submission was not made by 30 April 2018 for a total of 11 contracts. For nine of these, the submissions had been outstanding for at least three months, with four of the nine outstanding for more than six months. The SSRO reported these as non-compliance matters to the MOD.

In line with Regulation 49(2)(b), the time limit for issuing a compliance or penalty notice is six months after the date the report is due. The Secretary of State is able under Sections 31 and 32 of the Defence Reform Act to issue a compliance notice or a penalty notice where contractors fail to meet reporting requirements.

Table 6: CIR delays as at 30 April 2018

Length of delay to CIR submission (months)	Number of late CIR submissions	Formal MOD action taken as notified to SSRO	Outcome
0-3	2	-	-
3-6	5	-	-
6-9	0	-	-
9-12	0	-	-
12+	4	One on-demand report request followed by a compliance notice	CIR submission made

The MOD issued one compliance notice in respect of these matters as at June 2018, which resulted in a submission from the contractor. It is important that report submissions are made, because this is a statutory requirement, and also because the benefits to the regime can only be realised when there is a complete body of information available to benchmark and analyse.

With respect to the submission of supplier reports, the submission of these can be considered in two parts.

- First, there are the ‘overhead’ reports provided for each Qualifying Business Unit (QBU). Six different rate reports are to be submitted if the relevant conditions are met. These are the Actual rates claim report (ARCR); Estimated rates claim report (ERCR); QBU actual cost analysis report (QBUACAR); QBU estimated cost analysis report (QBUECAR); Estimated rates agreement pricing statement (ERAPS); and the Rates comparison report (RCR). The RCR is only submitted if the Secretary of State issues a written notice requiring it; and
- Second, there are the ‘strategic’ level reports. These are the Strategic Industry Capacity Report (SICR); and the Small and Medium Enterprise Report (SME). The person required to submit supplier reports is referred to as the Designated Person. If the contractor under a QDC or QSC is associated with one or more other persons, then the designated person is the Ultimate Parent Undertaking (UPU).

For the 24 QBUs and 18 UPU's reported as meeting the threshold for reporting requirements in the period 1 April 2015 and 31 March 2018, the total number of supplier reports expected was 233. A total of 82 per cent of the supplier report submissions were made in accordance with the reporting timeframes set out in the Regulations. It is, however, important to note that the SSRO is unable to accurately assess the number of QBU reports due, given the possibility that reports may be required in some years and not others depending on whether relevant conditions are met at business unit level. The analysis is therefore based on those submissions which have been received and consideration of their timeliness.

The SSRO can, however, more accurately assess whether the two strategic level reports are required, as for these only the ongoing contract condition applies. There have been several instances in relation to the SICR where expected submissions have not been made, or where the submission has been made below the UPU level, not as required by the Regulations.

Improving submission timeliness in the future

The SSRO is committed to making the reporting process as easy and clear as possible. It has continued to make ongoing improvements to the way data is collected via DefCARS, for which the user feedback has been positive. Recent developments have included:

- the introduction of a 'potential QDC' facility to allow contracts to see and make a start on their reporting obligations in advance of entering into a QDC;
- the development of a 'training environment' within the system to assist contractors with training personnel who will be involved in data entry in the future.

We have standardised an on-boarding process for new contractors every time a contract notification is received, undertaking 13 on-boarding sessions, alongside numerous bilateral meetings with contractors to discuss reporting issues since June 2017. This has included SME and non-UK based contractors. We have also set an annual programme of four MOD and four industry training sessions to improve stakeholders' understanding of DefCARS and of the reporting requirements. We will seek to work further with the MOD to monitor the extent to which supplier report submissions are made at the appropriate company level when required and will be issuing guidance on supplier reporting requirements.

For these actions to be successful, the MOD should encourage early and ongoing contractor engagement with the SSRO, using the compliance powers provided by the legislation where appropriate.

1b) “reporting obligations have been met for all reports submitted in accordance with the Regulations and relevant statutory guidance”

Issues raised with contractors

The SSRO’s approach to monitoring compliance with reporting obligations is to query errors that impact data quality (such as internal inconsistencies or arithmetical errors) and to raise issues on matters that appear to be erroneous (for example incomplete information) directly with contractors, upon whom the reporting obligations fall.

In making submissions in line with the Act and Regulations, contractors are obliged to report the facts, assumptions, and calculations relevant to each element of the Allowable Costs and to describe the calculation used to determine the contract profit rate, including all adjustments to the baseline profit rate. To keep the provisions of the framework under review, the SSRO may raise issues with contractors in order to understand relevant explanations in relation to Allowable Costs and adjustments to the baseline profit rate.

If the contractor does not respond to issues, or provides an unclear or unsatisfactory response, the SSRO passes these matters to the MOD. The SSRO’s review process starts after a contract submission has been made and, depending on the timeliness of contractor responses to issues, can continue over a period of several months. The compliance methodology followed by the SSRO allows for only a ‘pass or fail’ of an entire submission once made, regardless of the number of errors that may be apparent in the initial submission. If an issue arises and is applicable to each of the three initial submissions, it is counted as three individual issues raised.

In total, the SSRO identified one or more potential issues in 74 per cent of the initial contract submissions made. Following initial responses to these, the percentage of submissions with potential issues decreased to 40 per cent.

As at June 2018, the SSRO had raised a total of 2,853 issues with contractors with respect to the contract report submissions made, as set out in Table 7. In total, 2,489 (87 per cent) of the contract issues have been resolved.

Table 7: Total number of issues raised with contractors on contract report submissions, by year the contract became a QDC or QSC (as at June 2018)

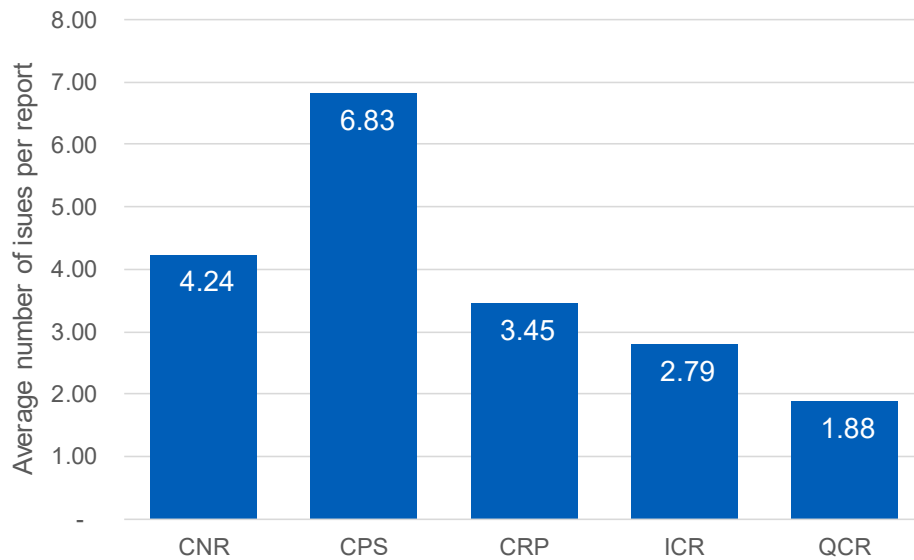
Year	Number of issues raised*	Number of issues resolved**	Number of issues in progress
2015/16	787	759	28
2016/17	1,421	1,281	140
2017/18	645	449	196
Total	2,853	2,489	364

*issued are logged against the year that the contract became a QDC or QSC and therefore 2016/17 contracts will have had more time to make update reports.

**Either through contractor or MOD response

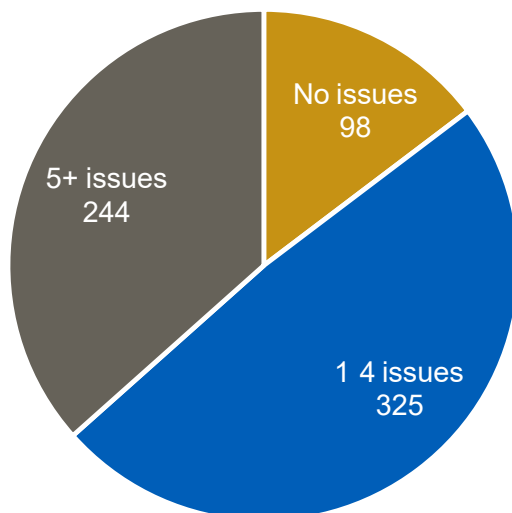
The CPS, one of the three initial reports, generally has the most number of issues raised against it. For the QCR and ICR submissions, which are completed more frequently on a more routine basis, the number of issues raised against them is far fewer. The information requirements for the QCR and ICR reports including deliverables; costs, profits and adjustments; payments; material events and circumstances; and sub-contracts.

Figure 5: Average number of issues per report by report type



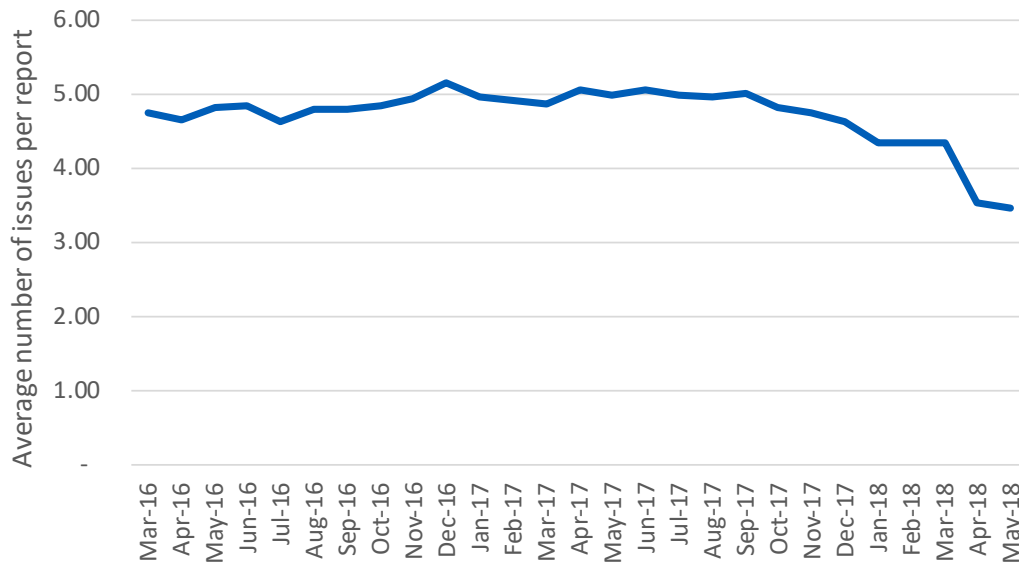
Analysis of the reports with issues shows that for the majority of submissions only a few issues are raised. A total of 458 of the 667 contract report submissions had four or fewer issues raised against them, as detailed in Figure 6.

Figure 6: Analysis of the number of reports with issues, for contracts that became a QDC or QSC in 2017/18



Although issues are raised throughout the year, peaking quarterly post QCR submissions, overall the number being raised on contract reports is reducing, as per Figure 7.

Figure 7: Analysis of the 12-month rolling average number of issues per report, by report submission date



A change in approach to the application of the SSRO’s compliance methodology has contributed to a reduction in identification of ‘contract verification’ issues (in relation to contract values and dates, for example). Where submitted information has previously been cross referenced against MOD data held by the SSRO, any differences are now no longer raised with the contractor and the contractor’s information is taken to be correct, unless queried by the MOD through its own verification work.

Figure 8 shows that in the past year, there has been a greater proportion of issues resulting in amendments, even though the average number per report is reducing.

Figure 8: Analysis of the 12-month rolling average of issues raised, against issues where amendments were required, by month

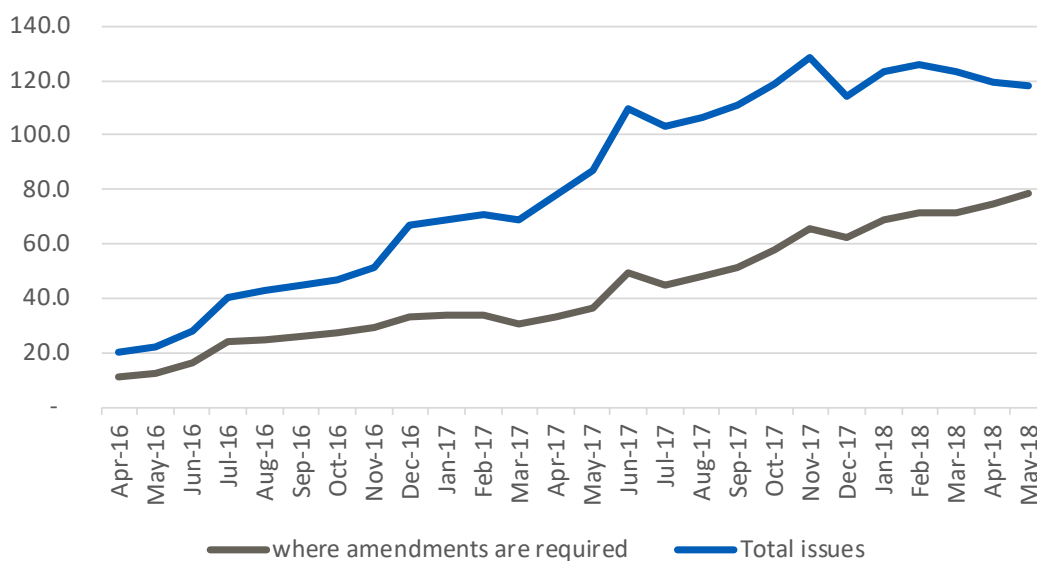
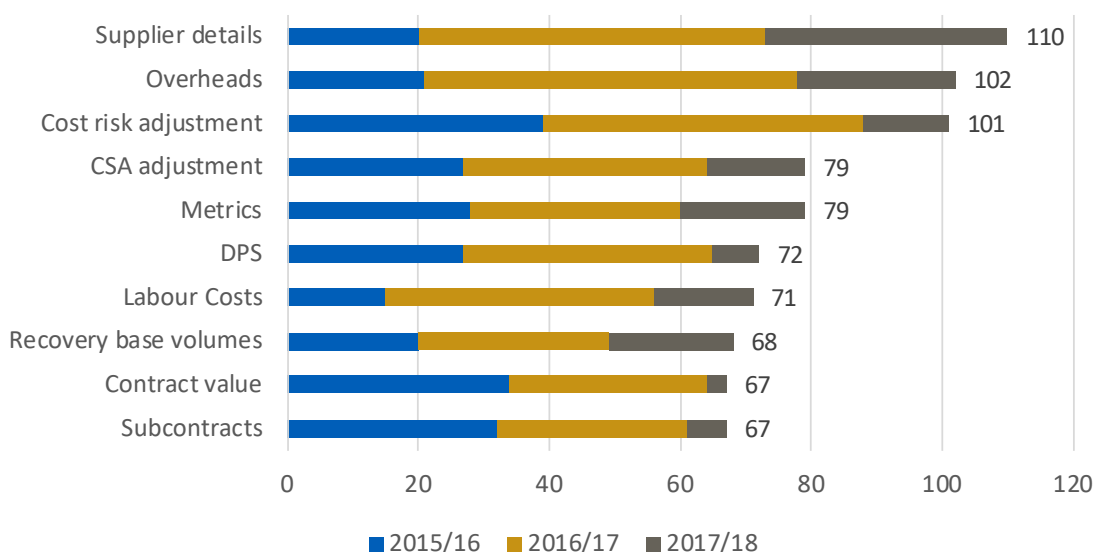


Figure 9 details the top ten themes that have resulted in amendments to the contract reports submitted, or the submission of additional information to meet the reporting requirements of the Regulations.

Figure 9: Analysis of the top ten themes resulting in amendments 2015/16 to 2017/18, by year the contract became a QDC or QSC



Improving the quality of submissions

There continues to be room for improvement in the data quality of the submissions made by contractors. In some cases, basic contract details are reported on an incomplete or an inconsistent basis. For example, initial contractor submissions have not included the required information on recovery bases; incomplete or inconsistent contract reporting plans; and are missing the facts, assumptions and calculations concerning overhead amounts, as required by the Regulations.

Of the 2,489 resolved issues, a total of 1,257 led to a resubmission of the report or the submission of additional data to meet reporting obligations. Issues which have not resulted in amendments have provided a valuable evidence base that has led to a better understanding of the difficulties faced by contractors in completing reports, as well as providing an insight into how the provisions of the legislation have been applied in practice. Together, these have led to:

- Developments to improve the way data is collected via DefCARS, for which the user feedback has been positive. This has made the contract report submission process more intuitive, highlighting errors and inconsistencies in the report through 'validation checks' which have allowed for rectification prior to submission and allowing for a 'copy and paste' facility to be utilised to reduce manual data entry.
- Ongoing improvements to ensure the reporting guidance is fit for purpose. In particular, the updates in August and November 2017 made improvements to the CIR and QCR sections of the guidance.
- More focused issues being raised by the SSRO, alongside the development of the SSRO's on-boarding programme for contractors with new QDCs and QSCs, which has assisted with setting reporting expectations prior to submissions being made.
- Information which has been used to make recommendations for legislative change.

- Following consultation with stakeholders, the development of a set of key priority areas to consider, including a review of the CPS and CCS. This will be part of a systematic programme of reviews of the data submitted in reports, with the aim of understanding data utility alongside what information is required and how best to report it. This will feed into the SSRO's s39(1) review function. The CPS review scope is yet to be determined, but four of the top ten themes feature in the CPS. The other themes will be included in an ongoing prioritisation process of review, alongside other feedback from stakeholders.

Table 8: Total number of issues raised with contractors on supplier report submissions (as at June 2018)

	Number of issues raised	Number of issues resolved	Number of issues in progress
Supplier reports	218	75	143

Our review of supplier reports has been limited. The evaluation of supplier reports would be increased by feedback from MOD on the utility of reports in order to understand how valuable the information is. Our commentary on the quality of the reports is limited and the issues identified with the overhead report submissions primarily relate to the completeness of information provided. In addition, where submissions are made, year on year variances remain unexplained in a number of cases. The SSRO is unable to provide a qualitative assessment of the information provided at the strategic level. While, for the most part, the SICRs reviewed meet the requirements of the legislation, the depth of the information provided has varied significantly between Designated Persons. This is an area that the SSRO will consider further in the future.

Referring issues to the MOD

Across the three years to 2017/18, the SSRO raised a total of 909 issues with the MOD. Subsequently, 121 of these were resolved by contractors in advance of any action from the MOD. The analysis in Table 9 is for the remaining 788 issues referred to the MOD after the initial issues raised with contractors were not responded to, or where the contractor response appeared to be out of line with the legislation or statutory guidance.

Table 9: Number of issues referred to the MOD on contract submissions, by year the contract became a QDC or QSC (June 2018)

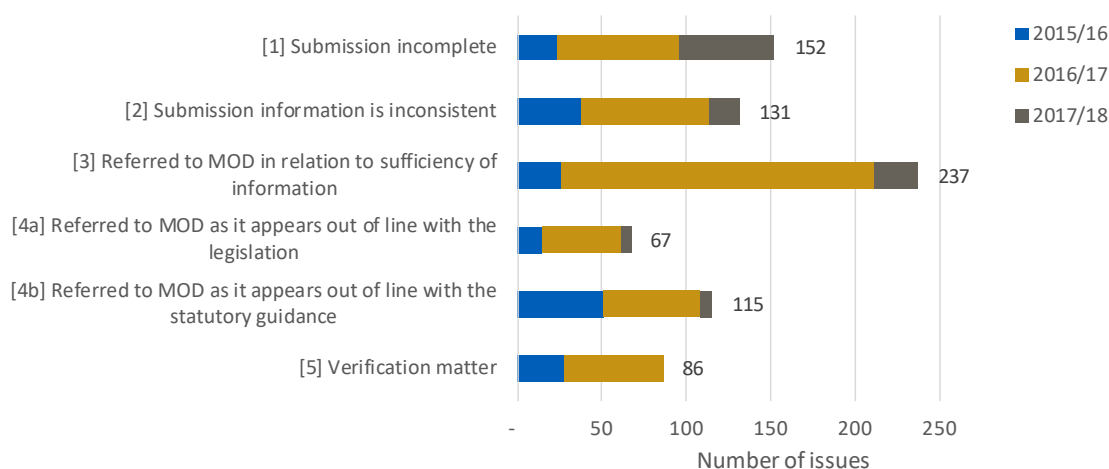
Year	Number of issues referred	Number of issues responded to*	Number of issues not responded to
2015/16	181	181	0
2016/17	494	494	0
2017/18	113	113	0
Total	788	788	0

*Cumulative of further MOD action required and MOD response of 'no further action'.

Figure 10 provides a breakdown of the categories used by the SSRO when referring issues to the MOD. Of the 788 issues referred to the MOD, the majority relate to the completeness of the submission or the sufficiency of the information provided by contractors. A smaller proportion, 182 of the total issues referred to the MOD, were instances where the information reported appeared to be out of line with the legislation or the statutory guidance.

The MOD's response to SSRO issues was largely concentrated in the period March to June 2018, including responses on several issues raised in prior years. The MOD has responded to all contract report issues referred to it by the SSRO. While the SSRO is grateful for the feedback received, our expectation is that the timeliness of responses will improve with the advances of MOD processes and procedures for the review of submissions, alongside the development of the issues logging functionality within DefCARS itself.

Figure 10: Analysis of the categories for reference of issues to the MOD, by year the contract became a QDC or QSC



The MOD's responses to issues raised with it have been consolidated into response types where possible. The MOD has indicated that 71 of the issues raised with it will result in a resubmission, either now or in the future. It has also stated that no action is required in response to a total of 293 of the issues referred to it by the SSRO as the contractor submissions were correct.

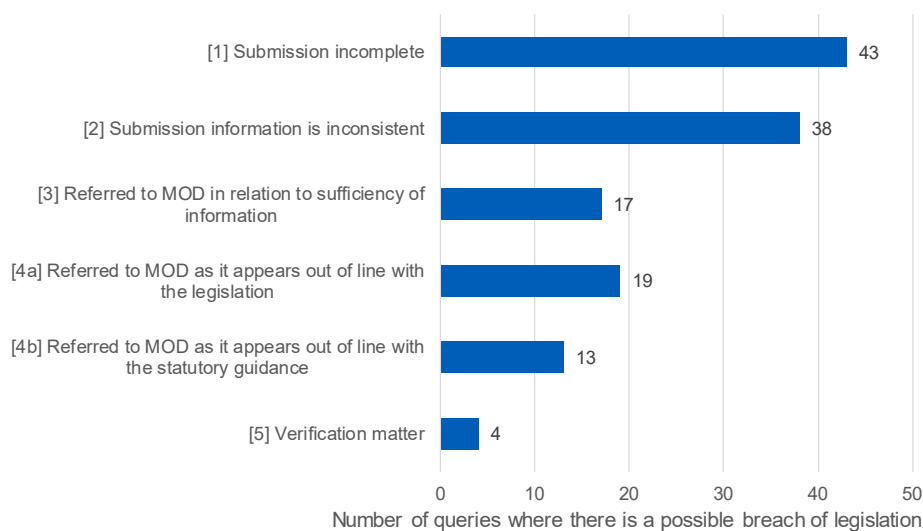
In addition, the MOD has stated that guidance developments are required, and therefore no further action would be taken, for 136 of the issues referred to it. Some of these issues have already been logged by the SSRO as areas where guidance development may be necessary. These include: understanding when a contract has been entered into; understanding the difference between contract price and contract value; and knowing what level of granularity of information is required to be submitted. While some developments are already in progress, the SSRO is considering the MOD's response in full, in order to determine whether it needs to, and if so how best to, update and supplement its guidance.

For 106 of the issues raised, there are improvements required to the MOD processes and procedures for the review of submitted contract information. Primarily these improvements relate to the need for its Cost Assurance and Analysis Service (CAAS) and Delivery Teams to check Capital Servicing Adjustments (CSA) and Recovery Rates stated by contractor in report submissions to ensure they are correct and the MOD has advised that it intends to make improvements to its processes to address these issues.

For 32 issues relating to the information used to describe the calculation for Cost Risk Adjustment (CRA), the MOD has noted that no further action will be taken by it, but that a method of calculation needs to be put in place for the CRA. This is a topic where the SSRO produced its [Cost risk and incentives in qualifying defence contracts](#) publication and will produce any further guidance as necessary following any regulatory change in this area.

The MOD has noted that in 134 cases the issues brought to its attention by the SSRO are potential breaches to the legislation. The MOD has undertaken an assessment exercise of these issues and advised the SSRO of its prioritisation and confirmed that these issues are being followed up. A further 11 require follow up before they can be categorised. One compliance notice has been issued resulting from the non-submission of contract reports, however the MOD is still considering whether any of the other issues are actual breaches of the legislation, and if so what action will be taken as a result. The analysis in Figure 11 shows where the MOD considers there may be a potential breach of the legislation.

Figure 11: Analysis of potential breaches of the legislation



In addition, to date 92 issues have been referred to the MOD with respect to supplier report submissions. The SSRO is awaiting a response from the MOD on these issues.

Future developments

The SSRO's approach to date has supported contractors in meeting reporting requirements and set expectations on the quality of data submitted and have informed our other statutory functions allowing for the identification of, or recommendations for, improvements to our methodologies, guidance and systems as well as evidence for our review of legislation. There is, however, work still to be undertaken by contractors and Delivery Teams at the MOD to better understand and meet the requirements of the legislation.

The MOD has been developing its processes, to ensure that the reports are used effectively by delivery teams for the management of contracts, in order to improve data quality. While there is a need to further develop the SSRO's reporting guidance, there is also a need for the MOD to ensure that it is using both contract and supplier reports as intended. The SSRO and MOD have worked together to issue improved guidance, both internal and external, and to further develop processes and procedures for the MOD's review of contract information that is submitted by contractors.

The MOD's processes for the review of submitted contract information now include:

- the identification of material errors, or any discrepancies between report submissions, along with the comparison of contractual information with that submitted in the CIR;
- Delivery Team challenge on variations between estimated and actual costs;
- the identification of potential deviations to agreed contractual outputs; and
- central MOD review of DefCARS data to identify potential non-compliance with reporting requirements or deviations from the legislation or statutory guidance, as well as to generate data for Senior Management in MOD.

Further work is still to be undertaken, however, with respect to supplier reports.

In parallel, given the developments of the MOD's processes, the SSRO has been able to adopt a more efficient, risk based and proportionate approach to the application of its compliance methodology. This has:

- combined further automatic validation in DefCARS to increase efficiencies;
- improved effectiveness by greater reliance on verification by the MOD against contract information;
- a focus on thematic analysis and reports to support the SSRO's reviews of guidance and legislation; and
- plans for spot checks by the SSRO of verification work undertaken by the MOD. The SSRO will continue to raise issues for the attention of the MOD where appropriate.

The SSRO will continue to monitor and report on performance as part of its duty to keep under review both the provisions of the regulatory framework and the extent to which contractors are complying with reporting obligations. The results of the work undertaken by the MOD and the development of the SSRO's approach will be reported on in our next publication.

Appendix 1: Information requirements of the statutory reports

The Act and Regulations set out the statutory reports that defence contractors must submit to provide transparency about their costs with respect to QDCs and QSCs.

There are 15 different types of reports that are collected via DefCARS which relate to either specific contracts (contract reports) or defence suppliers (supplier reports). Contract reports are provided by the contracting company (the named party responsible for delivering the contract) on a minimum of three occasions during the lifecycle of a QDC or QSC.

Table 1: contract reports

Report	Key information captured
Contract Notification Report (CNR)	<p>Captured in DefCARS as part of the Contract Initiation Report (CIR) template.</p> <ul style="list-style-type: none"> • Annual breakdown of costs and profits estimated under contract; • Annual cost profiles split by defined pricing structure; • Sub-contract details; • Payment schedule; and • Contract deliverables, metrics and milestones.
Contract Pricing Statement (CPS)	<p>Captured in DefCARS as part of the Contract Initiation Report (CIR) template.</p> <ul style="list-style-type: none"> • Calculation of Total Contract Price; • Calculation of the Contract Profit Rate; and • Facts, assumptions and calculations relating to each element of the Allowable Costs.
Contract Reporting Plan (CRP)	<p>Captured in DefCARS as part of the Contract Initiation Report (CIR) template.</p> <ul style="list-style-type: none"> • Reporting dates for all contract reports; • The defined pricing structure to be used in reporting; • Output metrics; and • Cost recovery bases.
Quarterly Contract Report [if >£50m] (QCR)	<ul style="list-style-type: none"> • Annual breakdown of costs and profits, both at time of latest agreement and by incurred and forecast costs at reporting date; • Cost breakdown by contractor's own reporting structure; • Costs profiled by calendar quarter; • Details of any material variances between estimated costs and current forecasts; • Sub-contract details; • Forecasts of any post-contract price adjustments; and • Information on contract milestones.

Report	Key information captured
Interim contract report [lower value - <£50m] (ICRL)	<p>The Interim Contract Report (ICR) is split into two templates in DefCARS to reflect the differing reporting requirements for contracts above and below £50m. For contracts below £50m, the following information is captured:</p> <ul style="list-style-type: none"> • Annual breakdown of costs and profits, both at time of latest agreement and by incurred and forecast costs at reporting date; • Cost breakdown by defined pricing structure; • Annual breakdown of recovery base volumes, both at the time of latest agreement and by incurred and forecast volumes at reporting date • Details of any material variances between estimated costs and current forecasts; • Sub-contract details; • Forecasts of any post-contract price adjustments; and • Payment schedule; metrics; and milestones.
Interim contract report [higher value - >£50m] (ICRH)	<p>The Interim Contract Report (ICR) is split into two templates in DefCARS to reflect the differing reporting requirements for contracts above and below £50m. For contracts above £50m, the following information is captured:</p> <ul style="list-style-type: none"> • Annual breakdown of costs and profits, both at time of latest agreement and by incurred and forecast costs at reporting date; • Cost breakdown by defined pricing structure; • Annual breakdown of recovery base volumes, both at the time of Latest agreement and by incurred and forecast volumes at reporting date; and • Details of any material variances between estimated costs and current forecasts.
Contract completion report (CCR) [6 months after contract end]	<ul style="list-style-type: none"> • Annual breakdown of costs and profits, both at time of latest agreement and by incurred and forecast costs at reporting date; • Cost breakdown by defined pricing structure; • Annual breakdown of cost recovery rates, both at the time of latest agreement and by incurred and forecast volumes at reporting date; • Details of any material variances between estimated costs and current forecasts; • Sub-contract details; • Forecast or actual values of any post-contract price adjustments; and • Payment schedule; metrics; and milestones.
Contract costs statement (CCS) [12 months after contract end]	<p>There is a short structured report form to collect some basic details but the main content of the report is unstructured and is submitted by the contractor in a supporting file.</p> <ul style="list-style-type: none"> • Contractor's accounting period; • The cost allocation and apportionment methodology; • Annual profile of Allowable Costs; • Explanation between the total actual Allowable Costs and the breakdown of purchases, other direct costs and indirect costs; and • Explanation of any variance between reported information and the most recent on-demand report.
On demand contract reports	<p>The Secretary of State can require contractors to submit a Contract Reporting Plan, Contract Pricing Statement or Contract Costs Statement.</p>

Supplier reports are reports required by the Regulations that are provided on a supplier rather than contract level. These are provided on an annual basis where the relevant threshold has been met. The effect of the threshold is that not all suppliers with QDCs/ QSCs will be required to submit supplier reports. There is an additional supplier report, the Strategic Industry Capacity Report, which is submitted outside of DefCARS.

Table 2: supplier reports

Report	Key information captured
Actual Rates Claim Report (ARCR)	For these reports there is a short structured report form to collect some basic details but the main content of the report is unstructured and is submitted by the contractor in a supporting file.
Estimated Rates Claim Report (ERCR)	<ul style="list-style-type: none"> • Provides the actual and estimated cost recovery rates and cost recovery bases for the Qualifying Business Unit. • Supporting information and analysis looking at how their rates were calculated from the financial statements or budget estimates.
Estimated Rates Agreement Pricing Statement (ERAPS)	<ul style="list-style-type: none"> • Provides descriptions, facts and assumptions used in the estimated rates claim report. No numeric fields or calculations.
QBU Actual Cost Analysis Report (QBUACAR)	These reports are combined into a single template in DefCARS to reduce duplication called the Qualifying Business Unit Cost Analysis Report (QBUCAR).
QBU Estimated Cost Analysis Report (QBUECAR)	<ul style="list-style-type: none"> • Provides actual and estimated operating costs, staffing costs and revenue information in a structured format, with breakdowns of items by defined business function (e.g. manufacturing, engineering). Estimate and actual cost recovery rate and cost recovery base information is provided as well as actual and estimated business unit costs applicable to defined activity types (e.g. R&D).
Rates Comparison Report (RCR)	<ul style="list-style-type: none"> • Details of all QDCs of the QBU which have cost recovery rates used as the basis for contract pricing. • Details of the rates used within the QBU. • Compares actuals and estimates for cost recovery rates and recovery base volumes.
SME Report	Provides quantitative information in relation to the use of small and medium sized enterprises in the supply chain.
Strategic Industry Capacity Report (SICR)	The SICR provides a long term view of key suppliers' capacity and overheads relevant to the MOD's current and future requirements. The SICR provides information on suppliers' corporate structures broken down by QBU and revenue streams. The report also includes any planned changes to structure, a description of the suppliers' activities, people and infrastructure, forecast costs of maintaining industrial capacity and details on the supply chain. Forecasts are for a period of five years.

Appendix 2: Data sources and methodology

The data in this report is sourced from a number of different contract reports submitted to the SSRO by contractors. The contract data in this report is sourced from the latest of the Contract Pricing Statement, Contract Notification Report, Quarterly Contract Report or Interim Contract Report.

Adjustments to data

All data is as reported by defence contractors, except in some circumstances where there are known, and significant, data quality issues.

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

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 SME status of a contractor or sub-contractor uses data as submitted by the contractors themselves.

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).

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.

Reporting on compliance issues

While a separate compliance report was initially proposed for January 2017, in updating its [compliance and review methodology](#) the SSRO considered that there were a number of benefits to amending the reporting cycle to align with the financial year rather than a calendar year. These included:

- the flexibility to report on all QDCs notified in a full financial year;
- additional time for parties to respond to SSRO queries raised;
- additional time for regime compliance to improve; and
- a better alignment with the SSRO's plans for statistical bulletins, which are based on financial years.

The SSRO is therefore publishing, in this report, work on all QDCs reported to the SSRO as being entered into in the period 1 April 2015 – 31 March 2018.

The SSRO has monitored whether contractors are meeting their reporting obligations under section 36(2) of the Act by considering if the required submissions:

- were delivered on time; and
- contained the information prescribed in the Regulations and any relevant statutory guidance issued by the SSRO.

The compliance approach included querying obvious errors (for example internal reporting inconsistencies) as well as raising any issues if completed reports seemed to be erroneous (for example reports containing incomplete or limited information). Where specific issues were raised with a contractor but not resolved satisfactorily, the SSRO informed the MOD asking that it considered its responsibilities in accordance with respect to the issue of compliance and penalty notices.

Additionally, the SSRO has reviewed the reports submitted by contractors to understand the operation of the provision of the Act and Regulations with respect to the pricing of contracts. While the SSRO has sought to understand the operation of the pricing provisions of the regulatory framework by reference to information reported on individual contracts, it has not audited reported costs or profit rates on a contract by contract basis, nor provided any assurances that individual contracts have been priced in accordance with statutory requirements.

The SSRO raised concerns with the MOD on pricing issues, particularly as to how the price control provisions of the Act and the Regulations were being applied. Concerns were raised for the following circumstances:

- the facts, assumptions and calculations relevant to an element of the Allowable Costs suggested a breach of the Act and the Regulations or deviation from the statutory guidance which was neither reported nor explained;
- the calculation made under Regulation 11 of the Regulations, including any adjustment under the six steps, to determine the contract price of a QDC appeared to be a breach of the Act, and the Regulations or a deviation from the statutory guidance but was neither reported nor explained;
- an unsatisfactory explanation was provided for a contravention of the Act or the Regulations;
- a deviation from the statutory guidance was reported by a contractor; and other information material to the pricing of the contract was reported and this appeared to suggest a failure to comply with the Act, the Regulations or deviation from the statutory guidance.