

# SSRO

Single Source  
Regulations Office

## Recommendation factsheet

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

### Baseline Profit Rate

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

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

	2017/18	2018/19	2019/20	2020/21	2021/22
Underlying rate (unadjusted for capital servicing)	8.39%	9.22%	9.85%	9.80%	9.59%
Capital servicing adjustment	-1.95%	-1.28%	-1.35%	-1.57%	-1.40%
Underlying rate	6.44%	7.94%	8.50%	8.23%	8.19%
Baseline profit rate: three-year rolling average of the underlying rate	7.46%	6.81%	7.63%	8.22%	<b>8.31%</b>

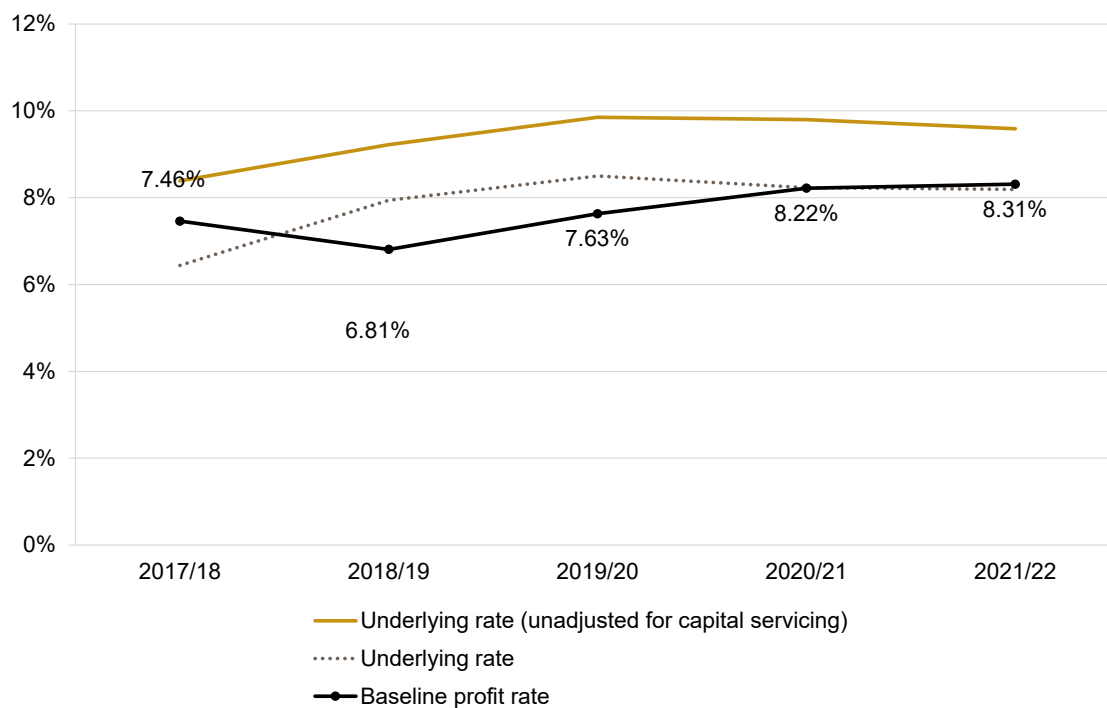
*Note: The capital servicing adjustment accounts, at an aggregate level, for different levels of capital employed across the companies in the index and so sets a baseline upon which step 6 of the contract profit rate applies.*

*The pre-2017/18 underlying rates used for the three-year average were: 2016/17: 6.06%; 2015/16 (calculated using the Review Board's methodology): 9.88%.*

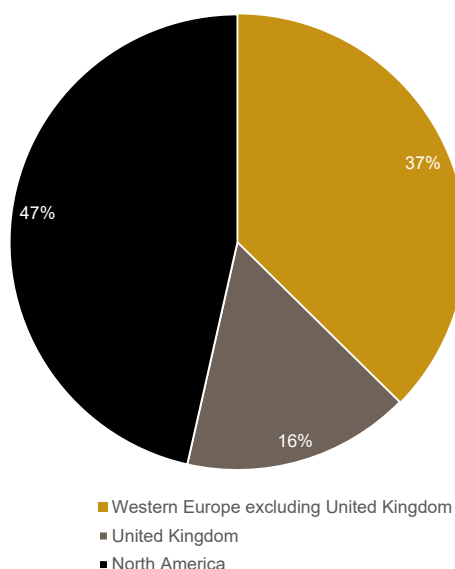
### Data sources

For further information on the data selection approach please see section 7 of the Single Source baseline profit rate, capital servicing rates and funding adjustment methodology. A company update search of the [Orbis database](#) was carried out on 5 November 2020 on data update number 202001 using software version 202. The financial data for the calculation was extracted from Orbis at the same time.

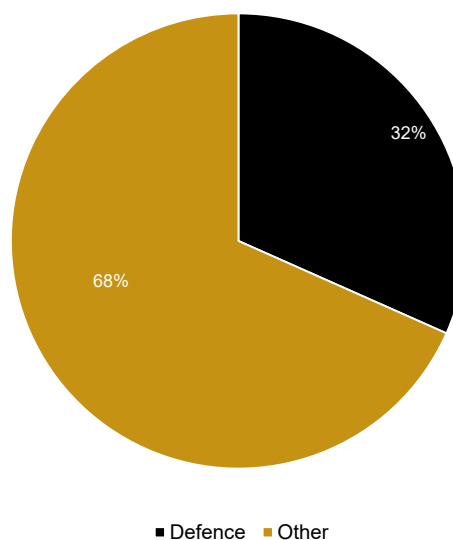
## Median capital servicing adjusted return on cost of production



## Proportion of Companies by country



## Proportion of companies with defence keyword



## Supplementary statistics

Number of companies	347
<i>of which profit making</i>	297
Aggregate turnover	£1,142
Total capital employed (CE)	£315
Average company CP:CE ratio	3.24

Source: Orbis (Cash figures shown in GBP Billions)

## Names of companies in the index

A/S Vestfrost *	Byggesystemer Norge AS	Espey Manufacturing & Electronics Corp	Istobal SA
Aaon INC	C.M.A. S.P.A.	Eurofighter Jagdflugzeug GmbH	Italcab S.P.A.
AAR Corp	C.S.C. - S.P.A.	Europress Group Oy	Jacobs Engineering Group INC
AB Transitio	Caci International INC	EVS Broadcast Equipment SA	John Bean Technologies Corp
AB Volvo	CAE INC	Faro Technologies INC *	Judges Scientific PLC
Advanced Energy Industries INC	CAI International INC	Fedegari Autoclavi - S.P.A.	Kadant INC
Aerojet Rocketdyne Holdings, Inc.	Calf S.P.A.	Federal Signal Corp	Kaman Corp
Aerovironment, Inc.	Calpeda S.P.A.	Filtronic PLC *	Katsa Oy
Aertec Solutions SL	Caprari S.P.A.	Finning International INC	Kbr, Inc.
Aggreko PLC	Caterpillar INC	Fisher (James) & Sons PLC	Kesla OYJ
Airbus SE	Ceco Environmental Corp.	Flir Systems INC	Keysight Technologies, Inc.
Alamo Group INC	Ceotronics AG	Flowserve Corp	KIS Partners AS
ALC (Superholdco) Limited	Chart Industries INC	Fratelli Mazzocchi S.P.A. *	KMG Systems Limited
Alimak Group AB	Chemring Group PLC	Freightcar America, Inc. *	Koenig UND Bauer AG
Allied Motion Technologies, Inc.	CMZ Machine Tool Manufacturer Sociedad Limitada.	Frigoveneta S.P.A.	Komax Holding AG
Allison Transmission Holdings, Inc.	CNH Industrial N.V	G.H.B. (Holding) Limited	Konecranes OYJ
Alstom	Cognex Corp	Gama Aviation PLC	Kongsberg Gruppen ASA (J)
Altra Industrial Motion Corp.	Coherent INC	GAP Holdings Limited	Kratos Defense & Security Solutions, Inc.
American Axle & Manufacturing Holdings, Inc. *	Cohort PLC	Gatx Corp	Krohne Italia SRL *
Ametek INC	Cohu INC *	Genasys Inc.	KVH Industries INC *
Amtech Systems INC	Columbus Mckinnon Corp	Gencor Industries, Inc.	L3harris Technologies, Inc.
Applus Services, S.A.	Comerio Ercole S.P.A.	General Dynamics Corp	LAM Research Corp
Aptiv PLC	Commercial Vehicle Group, Inc.	General Electric Company	Lecitrailer SA
Archrock, Inc.	Comtech Telecommunications Corp	Gentex Corp	Leidos Holdings, Inc.
Ashtead Group PLC	Construcciones Y Auxiliar de Ferrocarriles, S.A.	Gesellschaft fuer Oeltechnik mit beschraenkter Haftung	Leonardo - Finmeccanica S.P.A.
Astec Industries INC	Continental AG *	Glunz & Jensen Holding A/S *	Lillbacka Powerco Oy *
Astronics Corporation	Cormach S.R.L.	GO Plant Fleet Services LTD	Linamar Corporation
Astronova, Inc.	Costar Technologies, Inc. *	Gorman-Rupp Company (The)	Lockheed Martin Corp
Atlas AIR Worldwide Holdings, Inc.	Cowles Holdings Limited	Graco INC	Logset Oy
Atlas Copco AB	CTA International SAS	Graham Corp	Macpresse Europa S.R.L.
ATS Automation Tooling Systems INC	CTT Systems AB	Gray & Adams (Doncaster) Limited	Mactaggart Scott (Holdings) Limited
Autoliv, Inc.	Cubic Corp	Greenbrier Companies, Inc. (The)	Magna International INC
Avant Tecno Oy	Cummins Inc.	Grovgaaarden AS	Makron Oy
Axcelis Technologies INC	Curtiss Wright Corp	Gulf Island Fabrication INC *	Manitex International, Inc. *
Axon Enterprise, Inc. *	CVD Equipment Corporation *	H&E Equipment Services, Inc.	Manitou BF
Azkoyen SA	Cyberoptics Corp	Havyard Group ASA *	Manitowoc Company, Inc. (The)
Babcock & Wilcox Enterprises, Inc.	Dalmec S.P.A.	Heico Corp	Marel HF
Babcock International Group PLC *	Dana Incorporated	Heidelberger Druckmaschinen AG *	Mariani S.R.L.
BAE Systems PLC	Data I/O Corp *	Heroux-Devtek INC *	Maschinenfabrik Berthold Hermle AG
Barco NV	Dawsongroup PLC	Hexcel Corp	MAX Automation SE *
Barnes Group INC	Deere & CO	Honeywell International INC	Maxar Technologies Inc.
Bevan Group LTD	DEL BO Impianti S.R.L.	Huntington Ingalls Industries, Inc.	Mccoys Global Inc.
Bittium OYJ	Deutz AG	Idex Corp	Mcgrath Rentcorp
BK Technologies INC *	Douglas Dynamics, Inc.	li-Vi INC	Meggitt PLC
Blonder Tongue Laboratories INC *	Dril-Quip INC *	Imer International SPA	Mercury Systems INC
Boeing Company (The)	Dublin Aerospace Limited	Indra Sistemas SA	Mikron Holding AG
Boston Scientific Corp	Ducommun INC	Inficon Holding AG	Miller Industries INC
Brieda E C. - S.R.L.	Duerr AG	Ingenieria Y Tecnicas de Montajes Lointek SL	Mino S.P.A.
Broadwind, Inc. *	DXP Enterprises INC	Innovative Solutions & Support INC	MKS Instruments INC
Bruker Corporation	Electromecanica Naval E Industrial SA	Insta Group Oy	Modine Manufacturing CO
Brunvoll Holding AS	Elettronica - Societa PER Azioni	Interroll Holding AG	Moen-Gruppen AS
Burkhalter Holding AG	Energy Recovery, Inc.	Intevac INC	Moog INC
BWX Technologies Inc.	Enerpac Tool Group Corp	Intricon Corporation *	Morgan Advanced Materials PLC
			Motorola Solutions, Inc.

Mpac Group PLC	Rolls-Royce Holdings PLC *	Teradyne INC
MS International PLC	Roper Technologies, Inc.	Terex Corp
MTS Systems Corp	RWG (Repair & Overhauls) Limited	Tesmec SPA
MTU Aero Engines AG (J)	Ryder System INC *	Textron INC
Muehlhan AG	Saab AB	Thales
National Oilwell Varco, Inc. *	Saalisti Oy *	THE Shyft Group, Inc.
Natural GAS Services Group, Inc. *	Safran	Thwaites Limited
Navistar International Corp	Saltire Energy Limited	Thyssenkrupp AG *
NC Engineering (Hamiltonsbawn) Limited	Samp S.P.A.	Tomra Systems ASA
Nicolas Correa S.A.	Sandvik AB	Tornos Holding S.A
Nordson Corp	Schaltbau Holding AG	Total Energy Services Inc. *
Northrop Grumman Corporation	Schlatter Industries AG	Trakm8 Holdings PLC *
Novanta INC	Schmitt - Elevadores, LDA	Trane Technologies PLC
Nuova Idropress - Societa' PER Azioni IN Forma Abbreviata NIP S.P.A.	Science Applications International Corp	Transdigm Group Incorporated
Oceaneering International INC * (J)	SCM Group S.P.A.	Trinity Industries INC
Officine Bieffebi S.P.A.	Sheffield Forgemasters International Limited	Triumph Group INC
Omay S.P.A.	Siemens AG	Tronrud Engineering AS *
Onto Innovation Inc. *	Signature Aviation PLC	Twin Disc INC
Oshkosh Corporation	Skako A/S	Ultra Electronics Holdings PLC
Oxford Instruments PLC	Smith & Wesson Brands, Inc.	United Rentals INC
P P S Commercials Limited	Smith Brothers (Leicester) Limited	Univer S.P.A. *
Paccar INC	Smiths Group PLC	Vaisala OYJ
Park Aerospace Corp.	Snc-Lavalin Group INC *	Varian Medical Systems INC
Paul Mueller Company	Speedy Hire PLC	VEO Oy
PC TEL INC	Spirax-Sarco Engineering PLC	VMS (Holdings) Limited
Pekkaniska Group Oy	Spirit Aerosystems Holdings, Inc.	VSE Corp
Perceptron INC *	SPX Corp	Wabash National Corp
Petards Group PLC *	SPX Flow, Inc.	Wacker Neuson SE
Pietro Fiorentini S.P.A.	Star Refrigeration Limited	Wartsila OYJ
Ponsse OYJ	Steerprop Oy *	Washtec AG
Portsmouth Aviation Holdings Limited *	Sturm Ruger & CO INC	Waters Corp
Powell Industries INC	Sulzer AG	Weibilt INC
Prima Industrie SPA	Sureserve Group PLC	Westinghouse AIR Brake Technologies Corp
Qinetiq Group PLC	SVI S.P.A.	William Cook Holdings Limited (J)
Radley Engineering Limited	Swede Ship Marine Aktiebolag *	Williams Shipping Holdings Limited
Raute OYJ	Systemair AB	Willis Lease Finance Corp
Raytheon Technologies Corporation	Tacchi Giacomo E Figli S.P.A. *	Wilton Universal Group Limited *
Renew Holdings PLC	Talgo,S.A.	Wireless Telecom Group INC *
Renishaw PLC	Talleres Daumar SL	Witt & SON UK Holdings Limited
Rheinmetall AG	Taylor Devices INC	Wood Group (John) PLC
Ricardo PLC	Teagle Holdings Limited	Woodward, Inc.
Robor SRL	Team INC *	Worthington Industries INC
Rockwell Automation, Inc.	Teledyne Technologies Incorporated	Xylem Inc.
Rohde & Schwarz GmbH & Co. Kommanditgesellschaft	Tennant CO	Zambello Riduttori 2 - S.R.L.
	Tenneco Inc.	Zebra Technologies Corp

\* Indicates that the company is a loss-maker in the year. The data for loss-makers are not included in the 2021/22 assessment, but the companies will be taken forward for consideration next year.

(J) indicates a company that was not in either the D&M or the P&M activity group last year, but has been added this year.

## Capital servicing rates

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

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

	2017/18	2018/19	2019/20	2020/21	2021/22
Fixed capital servicing rate	4.84%	4.38%	3.98%	3.66%	3.27%
Positive working capital servicing rate	1.37%	1.21%	1.18%	1.22%	1.33%
Negative working capital servicing rate	0.59%	0.53%	0.53%	0.61%	0.65%

## Data sources

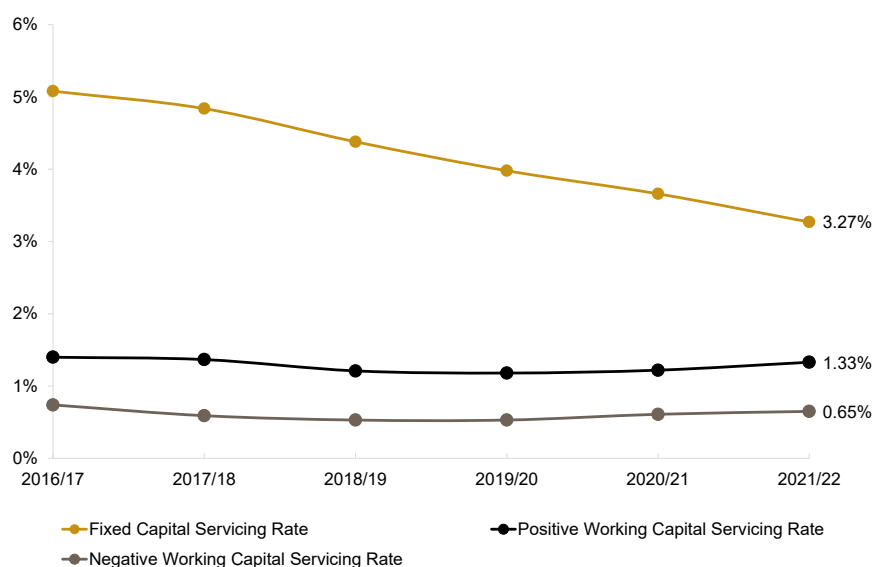
For further information on the data selection approach please see section 13 of the *Single Source baseline profit rate, capital servicing rates and funding adjustment methodology*.

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

Sources: Bloomberg or Bank of England

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

## Trends in capital servicing rates



## The SSRO funding adjustment

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

### Calculation of SSRO funding adjustment

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

Financial Year	2017/18	2018/19	2019/20
SSRO running costs (£ thousand)	5,916	6,148	6,336
Cost of additional tasks requested by SofS (£ thousand)	-	-	-
Total Allowable Costs of QDCs and QSCs (£ thousand)	2,692,000	4,899,000	8,414,000

Recommendation	2020/21	
SSRO running costs (£ thousand) – 3-year average	a	6,133
Cost of additional tasks requested by SofS (£ thousand) – 3-year average	b	-
Total Allowable Costs of QDCs and QSCs (£ thousand) – 3-year average	c	5,355,000
SSRO funding adjustment = ((a-b)/c) × 50%		<b>0.057%</b>

### Data sources:

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

### SSRO funding adjustment history

