

SSRO

Single Source
Regulations Office

Reporting guidance consultation paper
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1. Introduction

- 1.1 The SSRO is consulting on proposed changes to its reporting guidance. The SSRO's guidance on the preparation and submission of reports is statutory guidance which helps contractors to meet their reporting requirements under the Defence Reform Act 2014 (the Act) and the Single Source Contract Regulations 2014 (the Regulations). In the preparation of these changes we have attempted to make the reporting process clearer and more efficient. Contractors are required to have regard to the SSRO's guidance when preparing reports.
- 1.2 The SSRO also regularly updates its reporting guidance to:
 - reflect learning from operation of the regulatory framework, particularly feedback about preparing and submitting reports;
 - align with the Defence Contract Analysis and Reporting System (DefCARS), where functionality is regularly improved to reduce the reporting burden on contractors; and
 - support any changes in the reporting requirements set out in the legislation.
- 1.3 The SSRO makes minor and uncontroversial changes to guidance without consultation. Where changes are more significant, such as those in this document, the SSRO seeks input before proceeding to make the changes.
- 1.4 In circumstances where reporting guidance changes are associated with DefCARS developments, the SSRO seeks to implement both changes in proximity to each other. The need for alignment can affect the timing of guidance and DefCARS releases.
- 1.5 This consultation document has been issued to stakeholders and will be published on the SSRO's website. The consultation closes on 14 May 2021.

2. Consultation topics

- 2.1 The SSRO is consulting on changes to the following guidance documents:
- reporting guidance for contract reports;
 - DefCARS functionality; and
 - validations.
- 2.2 The proposed guidance covers six topics. Full details of each topic are included in the appendices. Where changes are proposed to current guidance, the appendices provide the current guidance, proposed guidance and rationale for change in tabular form.
- 2.3 A summary of each guidance topic is set out below.

Rounding in validations (Appendix 1)

- 2.4 DefCARS has a series of built in validations which check the consistency of data in contract reports. The checks assist users to make complete and consistent submissions, for example by identifying whether reported data are in the correct format, that totals sum correctly and data in repeated fields is consistent. Unresolved validation warnings may result in the SSRO or the MOD raising compliance issues with the contractor in DefCARS. An absence of validation warnings, or the resolution of validations, does not provide contractors with confirmation that their report is compliant with the Act and the Regulations.
- 2.5 There are sometimes minor rounding differences between data entered by contractors in repeated fields. There can be a variety of reasons for such differences. For example, the capital servicing adjustment calculator may result in more than two decimal places, which the contractor then overwrites with an agreed figure which has fewer decimal places.
- 2.6 DefCARS currently flags validation warnings if the data in repeated fields is not identical. These warnings need to be considered by the contractor and can lead to compliance issues being raised by the SSRO or the MOD. To avoid time being spent on pursuing warnings that relate to minor rounding differences, the SSRO is consulting on the addition of tolerances within the validation rules. Proposals and draft guidance in relation to this topic are at Appendix 1.

Linking compliance issues to action owners (Appendix 2)

- 2.7 The compliance issues logging functionality within the system prompts users when issues are released by a SSRO or MOD user, and when all issues in relation to that report have been resolved. This helps support data quality by promptly calling attention to compliance issues and providing an effective route to identify compliance issues in a report to help ensure they are corrected.

- 2.8 Stakeholders have provided feedback that it is unclear, when looking at issues within the system, whether it is the contractor, the MOD or the SSRO who needs to take action. This has been raised by contractors in circumstances where they have made comments in the system in response to an issue but the issue remains open. The automated email notifications sent by the system in relation to unresolved issues do not specify who is expected to deal with the matter. The SSRO is proposing to update the system to make it clearer to users who needs to deal with an issue that has been raised within DefCARS. Proposals and draft guidance in relation to this topic are at Appendix 2.

Reporting of sunk and committed elements in a contract (Appendix 3)

- 2.9 Where contracts become QDCs or QSCs following an amendment, the whole contract price must conform to the price formula and statutory contract reports need to cover the contract period in respect of the entire contract. The SSRO has seen examples where contractors are unclear about the reporting requirements and only report the period from the point the contract was amended to become a QDC until the completion date. The SSRO currently provides some guidance on how to report price elements relating to periods before the contract became a QDC or QSC. This is set out in the extant contract reporting guidance and is also provided via the reporting helpdesk. We consider, however, that there needs to be more direction provided to ensure consistency of reporting.
- 2.10 We would like there to be consistency between SSRO guidance documents in relation to use of the terms sunk and committed costs. We are proposing to update the SSRO's Allowable Costs guidance in relation to sunk and committed costs and to cross reference the terminology used in that guidance in the contract reporting guidance. The SSRO is therefore consulting on changes to its Allowable Costs guidance at the same time as part of this consultation document.
- 2.11 Proposals and draft guidance in relation to this topic are at Appendix 3. This topic also relates to the amended sub-contracts topic where proposals are at Appendix 5.

Reporting on-demand dates in the Contract Reporting Plan (Appendix 4)

- 2.12 Regulation 24(2)(b) sets out the reports which a contractor needs to list in their contract reporting plan (CRP) if they are required for the contract:
- Quarterly contract report (regulation 26);
 - Interim contract report (regulation 27);
 - Contract completion report (regulation 28); and
 - Contract costs statement (regulation 29)
- 2.13 The contractor must also report the due dates for these reports. Interim contract reports and Contract costs statements can be required on-demand under regulation 30 and would need to be listed in the CRP if the due dates are known.

- 2.14 Regulation 24(2)(c) requires that if a contractor has agreed to provide any of the information described in regulation 30(3) (on-demand contract reports) without a written direction, the contractor must describe in the CRP what it has agreed to provide. We consider this description should include the date by which the contractor has agreed to provide the report.
- 2.15 Regulation 30 sets out the contract reports which can be required on demand and the timing of when these reports are due. There are multiple scenarios in relation to the submission dates of on-demand reports, depending on the following:
- whether the report is provided in accordance with a direction or has been agreed;
 - if a direction has been given, whether it is under regulation 30(1) or 30(3); and
 - if a direction has been given, whether the date of submission has been agreed.
- 2.16 The SSRO developed the CRP in DefCARS to identify which contract reports, including on-demand reports, are being submitted by the contractor and when they are due. We would like to make changes to the way on-demand report due date information is collected in DefCARS and to its reporting guidance to better address the various options for due dates of on-demand reports and better support contractors to meet their reporting obligations in the CRP. Proposals and draft guidance in relation to this topic are at Appendix 4.

Amended sub-contracts (Appendix 5)

- 2.17 The SSRO uses a contract type in DefCARS titled 'QSC by amendment'. This was intended to identify sub-contracts which are assessed as being QSCs after an amendment to an existing sub-contract resulted in a new contract being created at common law. It recognised that such an amendment would trigger the requirement for a QSC assessment. We consider that the law is complicated in this area and that further guidance would assist to help contractors understand when QSC assessments are required.
- 2.18 The SSRO recognises that the contract label 'QSC by amendment' in DefCARS has confused some contractors. This may be because of comparisons with the term 'QDC by amendment', which refers to the express provision in section 14 of the Act for contracts to become QDCs following amendment. This is quite different from effect of the common law in some circumstances where an amendment results in a new contract. It is therefore proposed to remove this label from DefCARS, so that QSCs which are brought into the regime following an amendment will simply be reported as QSCs. The limited number of contractors who have already reported a 'QSC by amendment' will be asked to update the contract type to a 'QSC' when they submit their next update report. Proposals and draft guidance in relation to this topic are at Appendix 5.

Defined Pricing Structure (DPS) principles (Appendix 6)

- 2.19 In 2019, the SSRO reviewed the requirement to split costs by the DPS in some contract reports. The SSRO published findings in June 2020, setting out three proposals for changes relating to use of the DPS for reporting:
- revise guidance on the level of detail required when costs are broken down by DPS and emphasize the role of the MOD in selecting the DPS and setting metrics;
 - make changes to DefCARS and guidance to remove the support rows from equipment structures and enable contractors to explain mapping to the DPS and report against multiple structures; and
 - monitor the impact of revised guidance in relation to DPS selection and reporting of metrics to inform future review.
- 2.20 None of these required legislative change could be addressed through the reporting guidance and DefCARS. In version 9 of the contract reporting guidance published on 11 November 2020, the SSRO changed two paragraphs of its guidance to improve the reporting guidance in relation to the first of these changes. Some further proposals are presented in this document for consultation at Appendix 6.

3. Consultation

- 3.1 The consultation period for this set of proposals is 19 March 2021 to 14 May 2021. Consultation responses should be sent to consultations@ssro.gov.uk. There is no specified format for response.
- 3.2 Consultation questions are included to guide feedback, but comments are welcome on any aspects of the proposals.
- 3.3 The Reporting and IT sub-group of the SSRO's Reporting and IT sub-group continues to be a key source of input to the SSRO's reporting guidance and DefCARS. We propose to discuss the proposed changes at the next meeting on 23 March 2021. If you would like to speak to us outside of the Reporting and IT sub-group, please contact Simon McCullough at simon.mccullough@ssro.gov.uk, or telephone 0203 771 4794.
- 3.4 Feedback on the consultation process and the final changes the SSRO has decided to implement will be provided to the Reporting and IT sub-group at its meeting in July 2021.

4. Appendices

4.1 The following appendices are attached to this consultation paper:

- Appendix 1 – Rounding in validations
- Appendix 2 – Linking compliance issues to action owners
- Appendix 3 – Reporting sunk and committed elements in a contract
- Appendix 4 – Reporting on-demand report due dates in the Contract Reporting Plan
- Appendix 5 – Amended sub-contracts
- Appendix 6 – Defined Pricing Structure (DPS) principles
- Appendix 7 – Summary of consultation questions

Appendix 1 – Rounding in validations

Background

- 1.1 DefCARS has a series of built in validation rules which check the consistency of data in contract reports and alert contractors where there are mismatches. The checks assist users to make complete and consistent submissions, for example by identifying whether reported data are in the correct format, that totals sum correctly and data in repeated fields is consistent. Unresolved validation warnings may result in the SSRO or the MOD raising compliance issues with the contractor in DefCARS. An absence of validation warnings, or the resolution of validations, does not provide contractors with confirmation that their report is compliant with the Act and the Regulations.
- 1.2 There are currently 29 validation rules where the system compares fields within submissions or across submissions. There are instances where the system reconciles the figures to three decimal places and others where the figures need to match exactly to avoid a validation warning. We have identified the following issues with the current approach:
 - Minor rounding differences in a report may flag a validation warning.
 - There are differences in how contractors respond, with some engaging in disproportionate effort to ensure that figures match exactly, while others ignore the validation warnings and submit the report with rounding differences.
 - Unresolved validation warnings may result in an increased number of issues being raised within the submission by the SSRO or the MOD.
- 1.3 Having a comprehensive set of validation rules linked to clear and coherent messages supports data quality by:
 - identifying potential errors;
 - prompting users to consider such issues when completing and reviewing reports; and
 - providing a direct link to the location of the issue in the report, so that it can be addressed.
- 1.4 The SSRO wants to ensure the effectiveness of this process by ensuring that differences that are considered de-minimis are not flagged as validation warnings. The SSRO is consulting on the addition and amendment of some tolerances within the validation rules which compare fields to ensure that any minor rounding differences do not flag a validation warning.

Proposed changes to DefCARS and guidance

- 1.5 The SSRO intends to update DefCARS, the reporting guidance and the published validation rules to make clear the extent to which reported figures should match to avoid validation warnings being flagged. The proposed tolerances to the rules which will be applied within the system are set out in Table 1.

Table 1- validation tolerances to be applied when comparing fields within submissions

Comparison of	Tolerance to be applied when comparing fields	Examples
Any percentages reported within a submission.	The two percentages should match to the second decimal point with a tolerance limit of +/- 0.01.	<p>'Profit' page: Contract Profit Rate 10.75%</p> <p>'Summary Analysis of Price' page: auto calculated sum of the overall contract profit 10.76%. No validation warning.</p> <p>'Summary Analysis of Price' page: auto calculated sum of the overall contract profit 10.78%. Validation warning.</p>
Any financial values within a submission less than £100m.	The two values should match to one decimal point with a tolerance limit of +/- 0.1.	<p>'Contract' page: Total Contract Price £9.918m</p> <p>'Profit' page: Total Contract Price £9.926m No validation warning.</p> <p>'Profit' page: Total Contract Price £9.713m Validation warning.</p>
Any financial values within a submission greater than £100m.	The two values should match to the nearest million with a tolerance of +/- 1.	<p>'Contract' page: Total Contract Price £789.110m</p> <p>'Profit' page: Total Contract Price £790.01m No validation warning.</p> <p>'Profit' page: Total Contract Price £786.110m Validation warning.</p>

The SSRO welcomes views from stakeholders on the rules to be applied when comparing fields within DefCARS submissions.

Current and proposed guidance

- 1.6 Guidance on validation rules is set out in the DefCARS functionality guidance, the contract report guidance and in the published list of all validation checks. Table 2 sets out the current reporting guidance which relates to this topic.

The SSRO welcomes views from stakeholders on the proposed guidance set out in Table 2.

Table 2- reporting guidance relating to validation warnings which compare fields within submissions

Document	Paragraph	Current guidance	Proposed guidance	Rationale for change
DefCARS functionality guidance	New insertion at 2.19	Not applicable	<p>The following parameters are applied within the system when reported fields are matched for validation purposes:</p> <p>For any percentages reported within a submission, the two percentages should match to the second decimal point with a tolerance limit of +/- 0.01;</p> <p>For any fields that are being compared within a submission where the cell value is less than £100m, the two values should match to one decimal point with a tolerance limit of +/- 0.1; and</p> <p>For any fields that are being compared within a submission where the cell value is greater than £100m, the two values should match to the nearest million with a tolerance of +/- 1.</p>	<p>New paragraph detailing the specified parameters for the validation rule tolerances.</p> <p>In other areas of the guidance where validation warnings with respect to number comparisons are referred to, reference will be made to the specified parameters.</p>

Document	Paragraph	Current guidance	Proposed guidance	Rationale for change
Published validation rules	<p>[Note to be added to published validation rules] Number comparisons within submissions are subject to tolerances for minor differences, for example due to rounding. The specified parameters that apply to the validation checks are set out in the SSRO's guidance on DefCARS functionality.</p>			Included reference to specified parameters in relation to the validation rule tolerances.

Appendix 2 – Linking compliance issues to action owners

Background

- 1.1 The SSRO and the MOD can raise compliance issues on reports submitted by contractors in DefCARS. Issues which are attached to an individual page in a report are displayed in the 'Comments, Issues and Supporting Information' pop-up. When a contractor opens an issue, DefCARS displays details associated with the issue, such as:
 - a description of the issue;
 - whether the issue is linked to an automated validation rule; and
 - which organisation raised the issue.
- 1.2 The 'Current Open Issues' table on the 'Report Home' page in DefCARS provides a summary of all open issues in relation to the report. For each issue, the page provides:
 - a description of the issue;
 - the page and relevant field (if any) that the issue has been logged against; and
 - an indication where the SSRO has forwarded an issue for the attention of the MOD.
- 1.3 DefCARS notifies users by email when the compliance status of a report changes. This helps to increase the quality of inputs by identifying potential errors and providing a direct route to engage with issues. The email notifications sent to users include:
 - a 'Feedback Available' email when an issue is raised;
 - an 'MOD Report Status Change' or 'SSRO Status Change' email, when the MOD or SSRO changes the status report; and
 - a reminder when an issue has remained unresolved within the system for over 30 days, which is repeated every 30 days until the issue is closed by the party that raised it.
- 1.4 An issue may remain unresolved, even though the contractor has made comments in the system and proposed a way of dealing with the issue. Contractors have identified that in such circumstances, the automated emails and the system do not make clear who needs to take action to resolve the issue. They would like the system to record that they have responded and that the action is no longer with them. The SSRO can see merit in this suggestion and intends to update DefCARS and the automatic email notifications to provide greater clarity on who needs to take action to progress a compliance issue.

Proposed changes to DefCARS

- 1.5 The compliance issues functionality in DefCARS follows a workflow for each issue that is raised. Figure 1 details the workflow for compliance issues raised by the SSRO and Figure 2 details the workflow for compliance issues raised by the MOD.

Figure 1- workflow for compliance issue raised by the SSRO

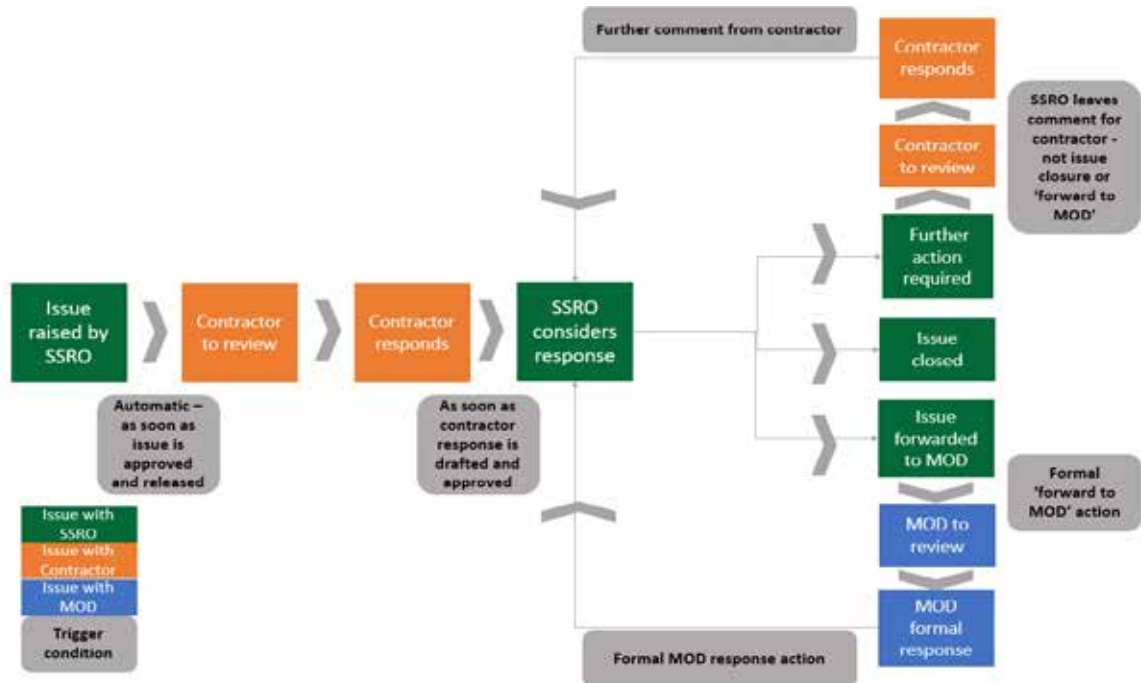
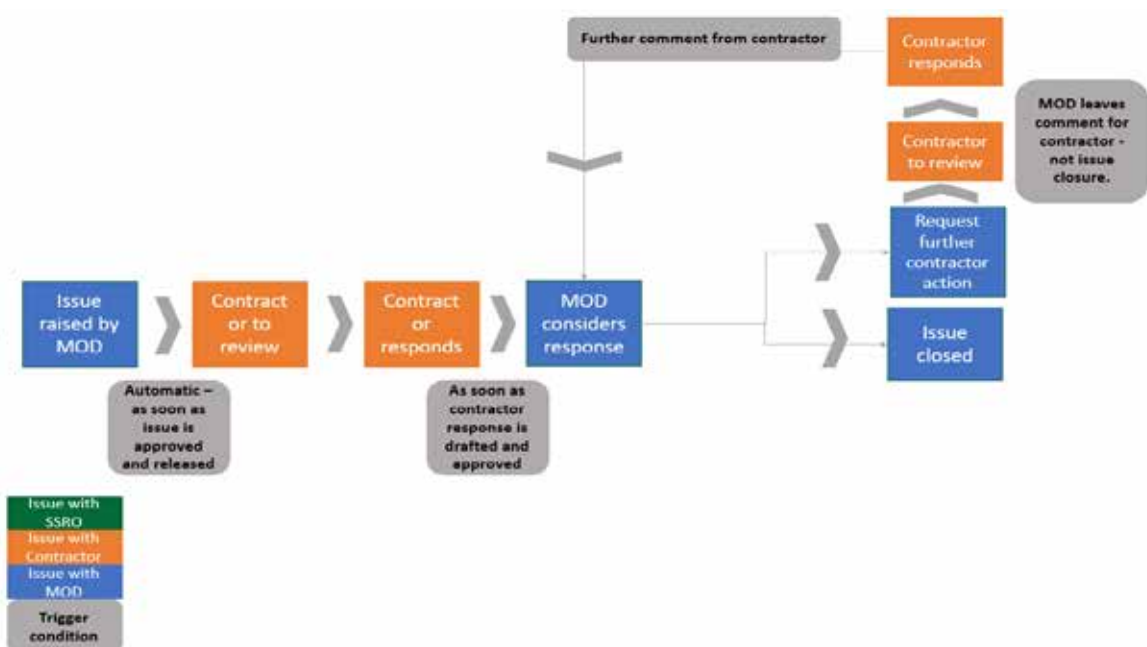


Figure 2- workflow for compliance issue raised by the MOD



- 1.6 The SSRO intends to develop DefCARS to automatically allocate a next action status based on trigger points in each compliance issues workflow. Table 1 sets out the triggers for SSRO raised issues to be directed to a specified organisation. Table 2 identifies the triggers for MOD raised issues to be directed to a specified organisation.

Table 1: trigger conditions for issues raised by the SSRO

User	Condition	Action
SSRO	Issue(s) initially released to contractor.	Issue(s) automatically set to 'next action with contractor'.
Contractor	Contractor response to individual issue is drafted and approved.	Issue(s) automatically set to 'next action with SSRO'.
SSRO	Comments left against individual issue(s) for the contractor.	Issue(s) automatically set to 'next action with contractor'.
Contractor	Comments left against individual issue(s) for the SSRO.	Issue(s) automatically set to 'next action with SSRO'.
SSRO	Issue(s) are 'forwarded to the MOD' by the SSRO.	Issue(s) automatically set to 'next action with MOD'.
MOD	MOD provides a formal response to the issue to the SSRO by selecting 'respond to the SSRO'.	Issue(s) automatically set to 'next action with SSRO'.

Table 2: trigger conditions for issues raised by the MOD

User	Condition	Action
MOD	Issue(s) initially released to contractor.	Issue(s) automatically set to 'next action with contractor'.
Contractor	Contractor response to individual issue drafted and approved.	Issue(s) automatically set to 'next action with MOD'.
MOD	Comments left against individual issue(s) for the contractor.	Issue(s) automatically set to 'next action with contractor'.
Contractor	Comments left against individual issue(s) for the MOD.	Issue(s) automatically set to 'next action with MOD'.

- 1.7 DefCARS will only set the issue to a specified organisation in line with the actions set out in Tables 1 and 2. The system will not, for example, be able to direct an issue to 'next action with SSRO' when a contractor is responding to an issue raised by the MOD.
- 1.8 The SSRO proposes to update the information included in email notifications about unresolved issues to identify the party who has the next action and how many unresolved issues there are associated with a submission. An email will not be sent to a party if none of the next required actions are with them.

The SSRO welcomes views from stakeholders on its proposals for:

- the system to automatically indicate the next action on an issue to a specified organisation; and
- updating the information included within automated email notifications.

Current and proposed guidance

- 1.9 Guidance on the issues logging functionality is set out in the DefCARS functionality guidance. Table 3 sets out the current reporting guidance which relates to this topic alongside the proposed guidance that will apply following this development to DefCARS.

The SSRO welcomes views from stakeholders on the proposed guidance relating to the compliance issue logging functionality within DefCARS as set out in Table 3.

Table 3- reporting guidance relating to the compliance issue logging functionality within DefCARS

Document	Paragraph	Current guidance	Proposed guidance	Rationale for change
DefCARS functionality guidance	2.30	b) Current Issues: This table will set out all open issues in relation to the report, providing a description of the issue along with the page and relevant field (if any) that the issue has been logged against. If an issue has been closed it will not remain on this page but will remain in the Comments, Issues and Supporting Information pop-up in the relevant report page.	b) Current Issues: This table will set out all open issues in relation to the report, providing a description of the issue along with the page, any relevant field that the issue has been logged against, and which party (contractor, SSRO or MOD) should take the next action in relation to the issue. If an issue has been closed it will not remain on this page but will remain in the Comments, Issues and Supporting Information pop-up in the relevant report page.	Updated to clarify that the table will now include the party (contractor, SSRO or MOD) who needs to take the next action in relation to the issue.

Document	Paragraph	Current guidance	Proposed guidance	Rationale for change
DefCARS functionality guidance	2.39, third sentence	The page will also show both current open issues and current resolved issues.	The page will also show both current open issues, including which party (contractor, SSRO or MOD) should take the next action in relation to the issue, and current resolved issues.	Updated to clarify that the report home page will now include the party (contractor, SSRO or MOD) who needs to take the next action in relation to the issue.
DefCARS functionality guidance	Exhibit 5	Exhibit to be updated to include identification of which party an issue is directed to.		
DefCARS functionality guidance	2.43	Contractors will be able to add their response to the MOD or SSRO issue by clicking show/hide new comment in the Comments Log, entering a comment in the box and clicking the 'add new comment' button (see Exhibit 9). Paragraph 2.47 explains how responses are approved.	Contractors will be able to add their response to the MOD or SSRO issue by clicking show/hide new comment in the Comments Log, entering a comment in the box and clicking the 'add new comment' button (see Exhibit 9). The system will then automatically set the issue to being with a specified organisation: the SSRO or the MOD, depending on who initially raised the issue. Paragraph 2.47 explains how responses are approved.	Updated to clarify that the system will now automatically allocate the party (contractor, SSRO or MOD) who needs to take the next action in relation to the issue.

Document	Paragraph	Current guidance	Proposed guidance	Rationale for change
DefCARS functionality guidance	New 2.57	New	The compliance functionality in DefCARS follows a workflow for each issue, which is used to identify the party who should take the next action on each issue. Exhibit 13 details the workflow for compliance issues raised by the SSRO and Exhibit 14 details the workflow for compliance issues raised by the MOD.	New paragraph to explain the trigger conditions for issues raised by the MOD and SSRO.
DefCARS functionality guidance	New Exhibit 13 and Table 4	New exhibit setting out the workflow for compliance issue raised by the SSRO and new Table 4 setting out the trigger conditions for issues raised by the SSRO.	Figure 1 and Table 1 from this Appendix to be included in the guidance.	
DefCARS functionality guidance	New Exhibit 14 and Table 5	New exhibit setting out the workflow for compliance issue raised by the MOD and new Table 5 setting out the trigger conditions for issues raised by the MOD.	Figure 2 and Table 2 from this Appendix to be included in the guidance.	

Document	Paragraph	Current guidance	Proposed guidance	Rationale for change
DefCARS functionality guidance	2.59, second sentence	This email notification will continue to be sent every 30 days until the issue is resolved.	This email notification will identify the party who needs to take action in relation to an unresolved issue, and the number of unresolved issues. It will continue to be sent every 30 days until the issue is resolved.	Updated to confirm that the notification will not be sent to a party if there is no unresolved issue that is awaiting action from them.

Appendix 3 – Reporting sunk and committed elements in a contract

Summary

- 1.1 The SSRO is consulting on the following changes to guidance and DefCARS:
- Additional guidance in section 3 of the SSRO's contract report guidance on costs incurred and profit agreed prior to a contract becoming a QDC or QSC (see Table 1).
 - Revisions to existing contract report guidance (see Table 2).
 - Revisions to the allowable cost guidance on sunk costs (see Table 3).
- 1.2 The proposals are set out in detail in this appendix. We are also seeking views on whether changes are needed to the reporting of annual profiles of profit and Allowable Costs in DefCARS and any difficulties contractors face in being able to report information related to periods before contracts became QDCs.

Background

- 1.3 In 2017, following its first review of the regulatory framework,¹ the SSRO identified that the pricing formula applies to the whole of a QDC or QSC, even where the contract is brought into the regime following an amendment. The SSRO also concluded that the regulatory framework requires that there should be a single contract profit rate for a contract and not different rates applying to different components of the contract. We recommended that:
- The legislation be amended to allow the pricing formula to be applied to only a defined component or components of a contract.
 - Where a contract becomes a qualifying defence contract (QDC) following amendment, the price payable under the amended contract should be determined in accordance with the pricing formula, but the Regulations should allow for the exclusion of any amount which had already been committed by reason of performance of the contract at the time of amendment.
 - The MOD should further examine whether there is support for the application of multiple profit rates within a contract (beyond where multiple profit rates exist due to an existing QDC being amended), or alternatively the use of blended rates.
 - There should be limited reporting in relation to the part of the contract that is not attributable to the amendment of a contract to become a QDC.

¹ SSRO Review of Legislation (June 2017) Recommendations to the Secretary of State

- 1.4 In 2018, the Single Source Contract (Amendment) (No. 2) Regulations 2018 introduced a new approach to pricing amendments to a QDC or QSC which may result in the amendment having a different profit rate from the contract profit rate at the time of entry into contract. The SSRO is currently undertaking a multi-year project on the reporting of these pricing amendments and that aspect of reporting is not the subject of this consultation.
- 1.5 The changes to pricing amendments in 2018 did not change the requirement that the price formula must be applied to the whole price of a QDC or QSC. Contractors continue to contact the SSRO's helpdesk for assistance in how to report the price of a QDC or QSC in circumstances where elements of the contract have not been priced according to the price formula.
- 1.6 The SSRO does not endorse any non-compliance with the requirements of the regulatory framework. We will continue to report pricing irregularities in accordance with the SSRO's compliance methodology. We have nevertheless provided practical assistance to contractors through the SSRO's helpdesk, to help them report contract prices in DefCARS when part of the price does not comply with the pricing formula. We propose to reflect the substance of that assistance in the guidance, with the following aims:
- Facilitating the submission of contract reports, which is a legal obligation on contractors.
 - Promoting consistency in the submission of data, which supports analysis and use.
 - Sharing SSRO guidance that has already been provided to some contractors.
- 1.7 We recognise that the MOD is conducting a review of the legislation on behalf of the Secretary of State. The law may be changed following that review but we do not expect such a change before April 2022. We think it would be helpful to update our current guidance on sunk and committed price elements at this time. We would welcome views from stakeholders about both the content and timing of any updates.

Current guidance on sunk and committed price

- 1.8 The SSRO provides guidance on how to report sunk and committed price in the following parts of its contract report guidance:
- a. CIR guidance, Table 10 – reporting the baseline profit rate % and contract profit rate %;
 - b. CIR guidance, paragraph 4.40, reporting the estimated Allowable Costs;
 - c. QCR guidance, paragraph 5.24, reporting the estimated Allowable Costs;
 - d. QCR guidance, paragraph 5.31, reporting the outturn Allowable Costs;
 - e. ICR guidance, paragraph 6.28 and 6.29, reporting the estimated Allowable Costs; and
 - f. CCR guidance, paragraph 7.36, reporting the outturn Allowable Costs.

- 1.9 Guidance on sunk costs is included in paragraphs 4.7 and 4.8 of the [Allowable Costs guidance](#).

Annual profiles in DefCARS

- 1.10 Contractors are required to provide annual profiles of Allowable Costs and profit² in the contract reports. Annual profiles are required in all contract reports with the exception of the Contract Pricing Statement and Contract Reporting Plan.
- 1.11 DefCARS currently generates annual profiles from the date a contract became a qualifying contract until the year of its completion. For example, a contract entered into in 2010 which was amended to be a QDC in 2020 and had a completion date in 2025 would have five years in the annual profile rather than fifteen.
- 1.12 This means that DefCARS does not provide a year or years in which to profile any costs and profit for the period prior to when a contract became a qualifying contract. The SSRO's current guidance is that:
- The total amount of any costs and profit for prior years can be entered under the 'not profiled' column within DefCARS to ensure that price breakdowns reflect the total contract price.
 - A spreadsheet should be submitted to provide details of costs and profit for years prior to the annual profile generated in DefCARS.
- 1.13 We are not proposing to change the current approach in DefCARS and the guidance for the following reasons:
- A relatively small number of contracts have costs and profits incurred prior to the contract becoming a QDC or QSC following an amendment.
 - Contractors can meet the requirement to profile costs and profits by submitting a supporting spreadsheet.
 - The data provided is sufficient for current analytical requirements.
- 1.14 We welcome views from stakeholders on whether the approach to generating annual profiles in DefCARS should be changed. If stakeholders are in favour of change it would be helpful to understand the degree of priority attached to this.

Should the SSRO change the current approach to generating annual profiles in DefCARS?

Proposed reporting guidance (Chapter 3)

- 1.15 We propose to insert new guidance in Chapter 3 of the SSRO's contract report guidance to deal with reporting elements of the contract price that preceded the contract becoming a QDC or QSC. The proposed guidance is set out in Table 1. The guidance is best included in Chapter 3 – Overview of Contract Reports, as it will apply to more than one type of report. Contractors will need to consider the guidance in Chapter 3 before starting their initial reports and then ensure consistency of approach in subsequent contract reports. Some amendments will also be needed to other chapters of the guidance, and this is set out in Table 2.

² For risk contingency and profit the contractor provides an annual profile or, if the contractor is of the view that it is not possible to express these matters in an annual profile, the total amount.

Table 1: Proposed guidance on reporting price elements for periods before a contract became a QDC or QSC

Paragraph	Guidance
Reporting price elements for periods before a contract became a QDC or QSC	
A.1	<p>The price of a QDC or QSC must be determined in accordance with the pricing formula $((CPR \times AC) + AC)$. This applies to the whole contract price, even if part of the price relates to a period before the contract became a QDC or QSC. The SSRO reports non-compliant prices of QDCs and QSCs in accordance with its compliance methodology.</p>
A.2	<p>In some cases, however, the pricing of the whole contract in accordance with the formula may not take place, resulting in a price that is non-compliant with the legislation. This has been observed to occur in the following circumstances:</p> <p>A contract becomes a QDC following an amendment and the agreement of the parties, under sections 14(2) and 14(4) or (5) of the Act.</p> <p>A contract becomes a QDC following an amendment that at common law rescinds the previous contract and the contract meets the requirements for being a QDC under sections 14(2) and (3) of the Act.</p> <p>A sub-contract becomes a QSC when an amendment would at common law rescind the previous contract and the proposed new sub-contract is assessed as being a QSC under regulation 61 and written notification is given to the MOD and the sub-contractor.</p>
A.3	<p>A contractor may find reporting difficult in such circumstances, as DefCARS has been established to receive reports of contract prices that are in accordance with the legislation. The following guidance assists contractors to report elements of a contract price that relate to a period before the contract became a QDC or QSC and have not been re-priced in accordance with the pricing formula. In such cases the contractor should report in a way that:</p> <ul style="list-style-type: none"> • The whole of the contract price is reported. • Annual profiles are provided of all costs and profit where this information is available. • A single contract profit rate is reported and is supported by any calculations used to arrive at that contract profit rate. • Sunk and committed elements of the contract price should be separately identifiable, with the contractor describing in a Contract Pricing Statement the facts, assumptions and calculations relevant to each element of the Allowable Costs. • There is consistency in the approach to reporting any sunk and committed elements from one contract report to another to allow meaningful comparison.
A.4	<p>The terms sunk and committed costs are used in this guidance. They have the same meaning as is used in the SSRO's Allowable Costs guidance. The SSRO assumes that in most cases, there will be profit associated with these costs.</p>

Paragraph	Guidance
Contract price	
A.5	<p>The contractor is required to report the contract price in the Contract Pricing Statement, Quarterly Contract Report, Interim Contract Report and Contract Completion Report. The contract price is reported in the following data fields in the initial reports (CIR) in DefCARS:</p> <ul style="list-style-type: none"> • Contract page: Total Contract Price • Profit page: Total Contract Price • Summary Analysis of Price: Total Contract Price
A.6	<p>When the contractor reports the contract price (as a total and by pricing method), this should include any sunk and committed price.</p>
Allowable Costs	
A.7	<p>The contractor is required to break down the Allowable Costs (excluding risk contingency) by the defined pricing structure (DPS). This is required in four reports³.</p>
A.8	<p>If the contract price includes sunk or committed elements, the contractor should do the following:</p> <p>Include any sunk or committed costs in the 'not profiled' column where these can be allocated to individual DPS lines in the 'DPS Input Values' page.</p> <p>If the contractor does not have historic cost information split by the DPS, these costs should be reported at the total level (Level 1) rather than by individual DPS line using the 'not profiled' column in the 'DPS Input Values' page. An annual profile of these total costs by DPS should be provided in an attached spreadsheet.</p> <p>Any costs which relate to risk contingency will need to be added to the 'not profiled' column of the 'Risk Contingency Element within the Allowable Costs' row in the 'Summary Analysis of Price' page in the CIR.</p>
A.9	<p>The contractor should provide a breakdown of any costs included in the 'not profiled' column, identifying any sunk and committed costs where these costs have been reported as a single figure. The contractor should provide the breakdown in a spreadsheet, which can be uploaded into the system on the 'Summary Analysis of Price' page.</p>
A.10	<p>The 'Cost Breakdown' page within the initial reports allows contractors the option to add additional cost categories. The contractor can add categories for sunk and committed costs to this breakdown. This cost breakdown is only provided in the initial reports or an on-demand Contract Pricing Statement.</p>
A.11	<p>In update reports, the contractor must report the quantum of Allowable Costs as at the latest time of agreement and the latest expected outturn. Any sunk and committed Allowable Costs which were in the initial reports and reported in the 'not profiled' column will be auto-populated in the 'Summary Analysis of Price' page. If the breakdown of the 'not profiled' costs has been uploaded in an earlier submission, the contractor is not required to resubmit this breakdown unless the costs have changed following a contract amendment. Any changes to these costs will need to be reflected in the 'Actual and Forecast Price Summary' unless there has been a pricing amendment which would be reflected in the 'Summary Analysis of Price'. Any variances related to a change in the sunk and committed costs which need to be explained should be reported in the 'Variances, events and circumstances' page.</p>

³ Contract Notification Report, Quarterly Contract Report, Interim Contract Report and Contract Completion Report.

Paragraph	Guidance
Profit	
A.12	A QDC or QSC is required to have a single contract profit rate, including where the contract became a QDC or QSC following an amendment. DefCARS facilitates the reporting of a single contract profit rate based on the six-step profit rate calculation.
A.13	The contractor should report the six-step calculation and the contract profit rate on the 'Profit' page of DefCARS (which only appears in the Contract Pricing Statement). Where the contract profit rate is not the same as the calculation of the six steps ⁴ , DefCARS will flag a validation warning and the contractor will be asked to provide an explanation. In such circumstances, the contractor should attach a calculation of the contract price, clearly showing how the contract profit rate has been calculated.
A.14	In the 'Summary Analysis of Price' page, any sunk or committed profit should be added together and reported as a total in the 'not profiled' column. The contractor, if they consider it possible, should provide an annual breakdown of this total figure, split by sunk or committed in an attached spreadsheet to show how the total figure is made up. The contractor can provide any further explanation of the total figure or the annual profile using the comments functionality.
A.15	In the update reports, a six-step profit calculation is not required. The contractor must report the quantum of profit in the original estimate and the latest outturn. Any profit which was in the initial reports will be auto-populated in the 'Summary Analysis of Price' page and any changes will need to be reflected in the 'Actual and Forecast Price Summary'.
Other aspects of contract reporting	
A.16	Contractors should consider whether they can report information on cost recovery rates, milestones, deliverables, metrics, payments and sub-contracts which were relevant for the period from the contract was entered into until it was amended to be a QDC. This reporting would be via separate attachment in the case of cost recovery rates. All other information can be added within the data structures set out in DefCARS.

⁴ In May 2021, the SSRO is planning a minor change to DefCARS and its reporting guidance. DefCARS will sum the six profit rate steps and then a contractor can use the Contract Profit Rate % field to report a different contract profit rate if they need to do this.

Draft guidance (Chapter 4)

- 1.16 Table 2 below sets out a change which the SSRO proposes to make to its current contract reporting guidance in Chapter 4 to ensure consistency of approach.

Table 2 – Proposals to amend current contract reporting guidance

Paragraph	Current contract reporting guidance	Proposed guidance	Rationale for change
CIR guidance – Profit data input - Table 9, row 4, column 2	Confirm the total Allowable Costs (including any risk contingency element) in the contract in £ millions to three decimal places. The contractor may provide supporting comments and explanation here to help the SSRO and the MOD understand the quantum of Allowable Costs, but that later CIR pages that ask the contractor to provide further details relating to Allowable Costs.	Confirm the total Allowable Costs (including any risk contingency element) in the contract in £ millions to three decimal places. The contractor should ensure this total includes any sunk or committed costs where these need to be reported, particularly for contracts which were amended to be a QDC but also for QDCs and QSCs. Further guidance on this aspect of reporting is included in chapter 3. The contractor should provide supporting comments and explanation here to help the SSRO and the MOD understand the quantum of Allowable Costs. Later data entry pages will ask the contractor to provide further breakdowns of the Allowable Costs.	To explain the requirement to report any sunk and/or committed costs which are part of the Allowable Costs.

Statutory guidance on allowable costs

- 1.17 Table 3 sets out the SSRO's Allowable Costs guidance on sunk costs and the proposals to relocate and change the guidance. It is proposed that these changes to the SSRO's Allowable Costs guidance would be made in September 2021 at the same time the reporting guidance is updated. We welcome stakeholder views on the timing of the Allowable Costs guidance change in addition to feedback on the proposed changes.

Table 3 – Proposals to amend current Allowable Costs guidance

Paragraph	Current Allowable Costs guidance	Proposed guidance	Rationale for change
Allowable Costs guidance, section 4	<p>Sunk costs</p> <p>If costs have already been incurred, referred to as 'sunk' costs, when an amended contract becomes a QDC or QSC, the SSRO expects that the parties would make appropriate arrangements such that it should be unnecessary for any question to be raised with the SSRO in relation to the sunk costs.⁵</p> <p>Such arrangements may include stating in the amended contract that:</p> <ul style="list-style-type: none"> the contracting parties agree that the sunk costs are Allowable Costs; and the parties will not seek to reclaim costs or to claim additional costs in respect of the period prior to the amended contract becoming a QDC or QSC. 	<p><i>Move to Allowable Costs guidance, section 5</i></p> <p>F. Exceptional and abnormal costs</p> <p>F.4 Sunk and committed costs</p> <p>F.4.1 Sunk costs are costs that that have been incurred, and committed costs are costs that have already been agreed to be incurred, at the time a contract becomes a qualifying contract. Sunk and committed cost may include, for example, bid costs (See C.2) or the cost of work undertaken at risk.</p> <p>F.4.2 Sunk and committed costs may be Allowable Costs subject to satisfying the requirements described in this Part, Section 3 and any other relevant Part of Section 5 of this guidance.</p> <p>F.4.3 If a contract becomes a qualifying contract following an amendment, sunk and committed costs may relate to goods, works, or services provided under the original contract. The SSRO expects that the parties would make appropriate arrangements such that it should be unnecessary for any question to be raised with the SSRO in relation to any sunk costs.⁶ Such arrangements may include stating in the amended contract that:</p> <p>the contracting parties agree that the sunk costs are Allowable Costs; and</p> <p>the parties will not seek to reclaim costs or to claim additional costs in respect of the period prior to the amended contract becoming a QDC or QSC.</p>	<p>Amendment to ensure consistency between the SSRO's reporting and Allowable Costs guidance.</p>

⁵ Sunk costs will still need to be notified in accordance with the reporting requirements

⁶ Sunk costs will still need to be notified in accordance with the reporting requirements

The SSRO welcomes views on the proposals in relation to Allowable Costs and specifically the following questions:

- Whether the SSRO should change the Allowable Costs guidance alongside the reporting guidance, or wait until 1 April 2022?
- Whether the proposed guidance changes help clarify how to apply the AAR principles to sunk and committed costs and report sunk and committed price?

Appendix 4 – Reporting on-demand report due dates

Background

- 1.1 The Secretary of State may, by written direction, require a contractor to provide on-demand contract reporting plans (CRP), contract pricing statements (CPS), interim contract reports (ICR) or contract cost statements (CCS). A contractor may also agree to provide such reports on-demand, without the need for a written direction.
- 1.2 Appendix 1 to the SSRO's contract report guidance summarises how the due dates of on-demand reports are determined. There is a degree of complexity to how these dates are determined under the Regulations, depending on the following factors:
 - whether the report is provided following a direction or by agreement;
 - if a direction has been given, whether a due date has been agreed or is left to be determined based on what the legislation provides; and
 - if a direction has been given for an on-demand CCS, whether that has been given under regulation 30(1) (reports required for specified periods), or regulation 30(3) (reports required at other times).
- 1.3 The information that a contractor is required to provide in the contract reporting plan includes the following:
 - a list of every quarterly contract report (QCR), ICR, contract completion report (CCR) and CCS required for the contract and the dates they are due, which will include on-demand ICRs and CCSs; and
 - a description of any on-demand report that the contractor has agreed to provide.
- 1.4 DefCARS enables contractors to identify required reports in the Reporting Plan page in a contract initiation report (CIR) or in an on-demand contract reporting plan. DefCARS automatically calculates due dates for some contract and on-demand reports. Table 1 sets out how DefCARS calculates due dates for on-demand reports and identifies issues with how the system operates.

Table 1 – Calculation of due dates in the Reporting Plan page in DefCARS

Report	Due Date
On-demand reports	
Contract Reporting Plan	DefCARS calculates the due date for these reports based on the reporting date entered by the contractor and the following assumptions:
Contract Pricing Statement	<ul style="list-style-type: none"> the due date has not been agreed between the contractor and the MOD; and the reporting date provided by the contractor reflects the date of receipt of a written direction from the Secretary of State.
Contract Cost Statement	If these assumptions are incorrect then the page format may confuse the contractor, or the system may calculate incorrect due dates.
Interim Contract Report	These reports can be requested on-demand, but currently there is no option to reflect this in the on-demand section of the Reporting Plan. These reports need to be added in the ICR section of the Reporting Plan where the due date will be calculated but the contractor would need to explain in the comments functionality that the report was an on-demand submission and not a submission of a regulation 27 report.

- 1.5 The SSRO is satisfied that DefCARS captures the standard contract reports and calculates their due dates correctly and therefore we are not consulting on changes to the reporting guidance associated with this part of the Reporting Plan page.
- 1.6 The SSRO considers that DefCARS and the guidance need to be improved to better enable contractors to submit details of the on-demand reports that are required or agreed to be provided and the associated due dates. We propose to change the layout of the on-demand section of the Reporting Plan page to facilitate the entry of on-demand reports and to enable contractors to enter the due dates in some situations and in others they will be calculated by DefCARS.

Changes to the Reporting Plan page in DefCARS

- 1.7 Exhibit 1 shows the current layout of the on-demand report section of the Reporting Plan page in DefCARS.

Exhibit 1 – On-demand report section of the Contract Reporting Plan page in DefCARS

Only complete the below section below if On-Demand reports are required

Contract Reporting Plan

Reporting Date	18/19	19/20	20/21	21/22	22/23
1	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Contract Pricing Statement

Reporting Date	18/19	19/20	20/21	21/22	22/23
1	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Contract Cost Statement

Reporting Date	18/19	19/20	20/21	21/22	22/23
1	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

- 1.8 This section of the Reporting Plan page is blank in many reports, as on-demand reports are often not required. For contracts where on-demand reports are required, we consider that it would assist contractors to provide the required information if DefCARS raises a series of questions that the contractor can respond to. This would be done for each on-demand report and, based on the contractor's responses, DefCARS would generate a list of the on-demand reports. Table 2 sets out a suggested set of questions to be included in DefCARS to gather the details required about on-demand reports and identify the due date of the report.

Table 2 – Proposed method for generating a list of on-demand reports

Question	Action
What type of on-demand report do you need to submit?	<p>Select one of the following from a drop-down list (the details below will need to be completed for each individual report):</p> <ul style="list-style-type: none"> • Contract Reporting Plan • Contract Pricing Statement • Interim Contract Report • Contract Costs Statement
Where contract costs statement has been selected, the contractor will be asked: Is the report required for a specified period?	<p>Yes/No</p> <p>Where 'Yes' is selected the contractor will be asked to select the start and end date of the specified period and DefCARS will determine the due date of the report based on the timeframes specified in regulation 30(2).</p> <p>If 'No' is selected, or the report is not a Contract Costs Statement, the contractor will be asked the next question.</p>
Are you submitting this report under written direction from the Secretary of State or by agreement?	<p>Select agreement or direction from the drop-down menu.</p>
Where agreement is selected, the contractor will be asked: Please provide the date by which the report will be submitted.	<p>A date option will appear for the contractor to record the date the report will be provided.</p>
Where direction is selected, the contractor will be asked: Is there an agreed date for submission of the report? Yes/No	<p>Where 'Yes' is selected the contractor will be asked to provide the agreed date.</p> <p>Where 'No' is selected, the contractor will be asked the next question.</p>
What date was the written direction received?	<p>A date option will appear for the contractor to record the date on which the written direction was received and DefCARS will determine the latest date by which the report should be submitted based on the timeframes specified in regulation 30(5) to (7) (summarised in Appendix 1 to the SSRO's contract report guidance).</p>

The SSRO seeks views on whether the proposed changes to the Reporting Plan page in DefCARS will help improve the reporting of on-demand reports and their due dates.

Guidance changes

- 1.9 Table 4 sets out the guidance changes which are associated with changing the Reporting Plan page in DefCARS.

Table 4 – Changes to guidance on completion of the Reporting Plan page

Current Guidance	Proposed Changes	Rationale for change
<p>4.9 The Regulations require contractors to set out the dates of reports required to be submitted in relation to the contract. The data entered here will be carried into the reporting calendar on the contractor's home page. Further details about how the reporting calendar operates are included in the guidance on DefCARS functionality. Section 9 of this guidance provides assistance on how to submit on-demand CRPs.</p>	<p>Contractors are required to provide the following information in the contract reporting plan:</p> <ul style="list-style-type: none"> • A list of every quarterly contract report, interim contract report, contract completion report and contract costs statement which will be required for the contract, which includes on demand versions of these reports where applicable, and the dates on which those reports will be due (regulation 24(2)(b)); and • A description of any on-demand contract pricing statement, contract reporting plan, interim contract reporting plan or contract costs statement that the contractor has agreed to provide, which should include the date on which the contractor has agreed to provide the report (regulation 24(2)(c)). <p>Due dates entered on the Reporting Plan page will be reflected in the reporting calendar on the contractor's home page of DefCARS.</p> <p>Further details about how the reporting calendar operates are included in the guidance on DefCARS functionality. Section 9 of this guidance provides assistance on how to submit on-demand CRPs. Appendix 1 identifies the relationship between reporting dates for on-demand reports and due dates.</p>	<p>The change provides more precise information about the reports that must be included in the contract reporting plan and the information required on due dates.</p>

Current Guidance	Proposed Changes	Rationale for change
<p>4.11 The contractor will need to manually input both the reporting dates and submission dates of any On-Demand Contract Reports which the contractor has agreed to provide or that have been directed by the Secretary of State. Any dates for on-demand Interim Contract Reports should be entered in the ICR report section of the Reporting Plan.</p>	<p>The contractor will need to provide the following information about on-demand reports:</p> <p>A description of each on-demand report that it has agreed to provide, including the date on which it has agreed the report will be provided and whether the report is being submitted under written direction by the Secretary of State or by agreement. For example, the contractor may have agreed to submit an on-demand CPS and CRP 30 days after a date on which it is expected the contract will be amended.</p> <p>For any contract costs statement that is required for a specified period, details of the start and end date of the specified period.</p> <p>DefCARS will ask a series of questions to assist the contractor to provide the required information. These questions are listed in Table 8.</p>	<p>The amended guidance specifies the information that must be provided in a contract reporting plan about on-demand reports and indicates how the system assists the contractor to enter the information.</p>
<p>Table 8, Row 7, Guidance Column</p> <p>If the contractor confirmed that there were agreed ICR dates then they should identify the reporting dates. The reporting dates will be auto-populated by DefCARS if the contractor has not agreed these dates. Extra rows can be added by clicking on the blue cross. If there are any additional on-demand ICRs to report at this stage, the ICR fields can be used to add these. Please provide an explanatory comment to clearly set out which dates relate to the on-demand reports.</p>	<p>If the contractor confirmed that there are agreed ICR dates then they should identify the reporting dates. If the contractor has not agreed these dates then the reporting dates will be auto-populated by DefCARS. Extra rows can be added by clicking on the blue cross.</p>	<p>Removing guidance relating to ICR on-demand reports which will be added to the on-demand section of the Reporting Plan page. Minor re-ordering of a sentence to improve clarity.</p>

Current Guidance	Proposed Changes	Rationale for change
<p>Table 8, Row 9, Guidance Column</p> <p>DefCARS enables reporting dates to be entered where the contractor has agreed to provide, or has received written direction from the Secretary of State to provide, On-Demand Contract Reports. Appendix 1 identifies the relationship between reporting dates for on-demand reports and due dates. Chapter 9 of this guidance provides information on how to submit an on-demand Reporting Plan to reflect any new on-demand reports which are required after the initial reports have been submitted. DefCARS auto-populates the due date for an on-demand report when the reporting date has been entered assuming that there has not been a due date agreement between the contractor and the MOD. Any on-demand ICRs should be entered in the ICR section of this page. Contractors can enter dates for on-demand CRPs, CPSs and CCSs here. Extra rows can be added by clicking on the blue cross. The fields can be left blank if there are no On-Demand Contract Reports to report at this stage. If applicable, it would be helpful to provide a supporting comment to that effect.</p>	<p>DefCARS assists contractors to list on-demand reports that they have agreed to provide or been directed to provide by the Secretary of State, and to identify the date by which each report will or must be provided. Contractors should select from the drop-down list provided the on-demand report (Contract Reporting Plan, Contract Pricing Statement, Interim Contract Report or Contract Costs Statement) that they have agreed or are required to submit. Once the contractor has selected a report, DefCARS will ask the following questions:</p> <ul style="list-style-type: none"> • Where CCS has been selected, is the report required for a specified period? (Yes/No) • Where Yes, the start and end date of the specified period are required. • Are you submitting this report under written direction from the Secretary of State or by agreement? • Where by agreement, the contractor is asked to provide the date by which the report will be submitted. • Where by written direction, the contractor is asked if there is an agreed date for submission of the report (Y/N). • Where the report is being submitted under written direction, the date the written direction was received? <p>This process should be repeated for each on-demand report that the contractor has agreed to submit or is required to submit.</p>	<p>The SSRO considers that this suggested approach will improve the reporting of on-demand reports in the contract reporting plan. To enable this contractors would be required to submit data which they currently do not need to.</p>

The SSRO seeks stakeholder views on whether the guidance changes explain how contractors should submit on-demand report information under the proposed changes to the Reporting Plan page of DefCARS.

Appendix 5 – Amended sub-contracts

Background

- 1.1 The SSRO uses a contract type in DefCARS titled ‘QSC by amendment’. This was intended to capture those sub-contracts which had originally been assessed as not being QSCs, but were then subsequently amended in such a way that, under common law, new contracts would be created. Where such an amendment is proposed, this would have the effect of triggering the requirement for a fresh QSC assessment and, where the outcome of that assessment is positive, the new sub-contract would be brought into the regime at the time the amendment is given effect and notice is given to the MOD and the sub-contractor.
- 1.2 The SSRO made a recommendation in its review of the legislative framework in 2017 that the MOD should clarify its intended treatment of amended sub-contracts. We recognise that the MOD is conducting a review of the legislation on behalf of the Secretary of State. The law may be changed following that review, but we do not expect such a change before April 2022.
- 1.3 The SSRO considers that it would be helpful to update our guidance so that contractors are clear on the circumstances in which the effect of amending a contract may result in a new contract coming into effect. Where the amended contract is a sub-contract, this may result in the requirement to undertake a QSC assessment which, if positive, would result in a new QSC being entered into.

Guidance changes

- 1.4 The SSRO proposes to insert the following text into Chapter 3 of its current contract reporting guidance, following paragraphs 3.29 to 3.32, which concern contract amendments in the context of “time of agreement”.

Reporting QSC assessments

- 1.5 Contractors are required to report the outcome of any assessment that has been made of whether a sub-contract is a QSC. This information must be provided in the Contract Notification Report, Quarterly Contract Report and Interim Contract Report (see regulations 25(2)(l)(ix), 26(6)(k)(ix) and 27(5)(e)(ix)).
- 1.6 Regulation 61 specifies the circumstances in which an assessment must be carried out of whether a proposed sub-contract would be a QSC (a QSC assessment). A QSC assessment must be carried out by the primary contractor or other person who proposes to enter into a sub-contract if the proposed sub-contract involves the provision of anything for the purposes of a QDC or QSC to which the contractor or other person is a party. Regulation 61 also specifies that the person carrying out the assessment must keep a record of the assessment, give written notice to the sub-contractor if it considers the contract would be a QSC, and in all cases give written notice that an assessment has been made to the MOD and the SSRO.

- 1.7 The Regulations only call for a QSC assessment to be undertaken at the time when it is proposed to enter into the sub-contract. The Regulations do not require a QSC assessment to be undertaken if an existing sub-contract is subsequently amended. A proposed amendment to a sub-contract will, however, trigger the requirement for a QSC assessment under regulation 61 if:
- the parties propose to amend a sub-contract in a way that results in a new sub-contract; and
 - the sub-contract provides anything for the purposes of a QDC or QSC.
- 1.8 If the outcome of the QSC assessment is positive and the proposed amendment is made, the new QSC will be brought into the regime upon the contractor complying with the notice requirements under regulation 61(3).

An amendment may result in a new contract

- 1.9 In limited circumstances, an amendment to a contract may create a new contract. Under common law, a new contract will arise when the effect of the amendment is to rescind the existing contract. Broadly, this may occur in two circumstances:
- By express agreement between the parties. For example, in a deed of restatement and amendment, the parties may state that the previous contract is rescinded.
 - By implication. The circumstances or the terms of the amendment may imply a rescission of the previous contract. A rescission may be presumed if the amendment is entirely or wholly inconsistent with the previous contract. This may occur if the amendment introduces a substantially different requirement.
- 1.10 Contractors should seek legal advice if they are unsure whether a proposed amendment will result in a new contract.

Reporting a contract that has become a QDC or QSC following an amendment

- 1.11 Contractors are required to report the price of a QDC or QSC in the contract reports. The pricing formula in regulation 10 applies to the whole of the contract price, including in the following circumstances:
- A contract becomes a QDC following an amendment and the agreement of the parties, under sections 14(2) and 14(4) or (5) of the Act.
 - A contract becomes a QDC following an amendment that at common law rescinds the previous contract and the contract meets the requirements for being a QDC under sections 14(2) and (3) of the Act.
 - A sub-contract becomes a QSC when an amendment would at common law rescind the previous contract and the proposed new sub-contract is assessed as being a QSC under regulation 61 and written notification is given to the MOD and the sub-contractor.

- 1.12 If a contract has become a QDC or QSC following an amendment, there will likely be a component of the contract that was not originally priced in accordance with the price formula. The whole contract should be re-priced in accordance with the formula in such circumstances. Chapter 3 of the guidance also explains how sub-contractors can report in circumstances where the price is non-compliant and there are elements of the price that have not been priced in accordance with the price formula.

The SSRO seeks views on whether the proposed guidance clarifies:

- the circumstances in which a new contract can be created as a result of an amendment to an existing contract; and
- the impacts on reporting, including reporting QSC assessments and the prices of QDCs or QSCs.

Proposed amendments to existing guidance

- 1.13 Since it is proposed to remove the contract-type 'QSC by amendment' from DefCARS, with QSCs by rescission to be reported under the 'QSC' contract-type, this necessitates some minor changes to the current contract reporting guidance. There are also limited cases where the term 'QSC by amendment' or similar is used and these will be updated to reflect the new term 'QSC by rescission'. The proposed changes are set out in Table 1:

Table 1 – Proposed changes to current reporting guidance

Paragraph	Current guidance	Proposed guidance
Table 7, Row 6 – Contract data input	<p>Contract Type</p> <p>The contractor is asked to categorise their QDC as either one of the following:</p> <ul style="list-style-type: none"> • QDC • QDC by amendment • QSC • QSC by amendment <p>QDC and QSC should be used to reflect new contracts, and QDC by amendment and QSC by amendment should be used to reflect existing contracts which have been amended and have become QDCs or QSCs.</p> <p>The categorisation here will impact which of the date contract entered into or the latest pricing amendment date (see next page) flows through to the field labelled 'Date contract became a QDC/QSC'.</p>	<p>Contract Type</p> <p>The contractor is asked to categorise their QDC as either one of the following:</p> <ul style="list-style-type: none"> • QDC • QDC by amendment • QSC <p>QDC and QSC should be used to reflect new contracts (including where the new contract results from amendment and rescission of a previous contract). QDC by amendment should be used to indicate contracts which have become QDCs following an amendment and the agreement of the parties, under sections 14(2) and 14(4) or (5) of the Act.</p> <p>The categorisation here will impact on the field labelled 'Date contract became a QDC/QSC'. This will either be the 'date contract entered into' if the contract-type selected is a QDC or QSC, or the 'latest pricing amendment date' if a QDC by amendment is selected (see next page).</p>

Paragraph	Current guidance	Proposed guidance
<p>Table 7, Row 7 – Contract data input</p>	<p>Date Contract Entered Into:</p> <p>Dates in DefCARS can either be typed in using the format indicated or by using the calendar functionality.</p> <p>The contractor should provide:</p> <ul style="list-style-type: none"> • the date a new contract was entered into; or • if an existing contract was amended and became a QDC or QSC, the date that the contract was originally entered into. <p>Further guidance on the date a contract is entered into is provided on page 10.</p>	<p>Date Contract Entered Into:</p> <p>Dates in DefCARS can either be typed in using the format indicated or by using the calendar functionality.</p> <p>The contractor should provide:</p> <ul style="list-style-type: none"> • the date a new contract was entered into; or • if an existing contract was amended and became a QDC, the date that the contract was originally entered into. <p>If a new contract has been created following an amendment and rescission of a previous contract, the date of entry into the contract will be the date the amending instrument was entered into.</p> <p>Further guidance on the date a contract is entered into is provided on page 10.</p>

- 1.14 Further minor changes will be made, including to Tables 6 and 7 and paragraphs 5.22 and 5.31, to update the current references to 'QSC by amendment'.

Appendix 6 – Defined Pricing Structure (DPS) principles

Background

- 1.1 The DPS to be used for reporting should be described in the contract reporting plan and this structure should be used to report Allowable Costs (excluding risk contingency) in the contract notification report, interim contract report and contract completion report. In its Review of Legislation findings published in June 2020, the SSRO identified the purpose of the DPS, also confirmed by stakeholders, is to support benchmarking and parametric estimating and to challenge contractor cost estimates.
- 1.2 We intend to introduce minor changes to the DPS principles guidance to improve clarity in May 2021. These changes are not included in this document for consultation. The SSRO is also not implementing any of the DefCARS changes signalled in its 2019 Review of Legislation until after the MOD's review is complete and reporting changes relating to the DPS are known.
- 1.3 This appendix sets out changes to the existing contract reporting guidance which the SSRO seeks stakeholder views on before implementation.

Guidance on reporting the DPS

- 1.4 Table 1 below sets out changes which the SSRO proposes making to its existing contract reporting guidance in September 2021, following consultation, which relates to reporting by a DPS.

Table 1 – Proposed changes to reporting guidance which cover reporting by DPS

Current Guidance	Proposed Changes	Rationale for change
<p>4.28 The contractor should report against the relevant DPS headings and agree the approach being taken with the MOD. The contractor should consider the following things when discussing with the MOD:</p> <ul style="list-style-type: none"> • whether the number of lines selected in the DPS is proportionate for the quantum of Allowable Costs being reported; • whether the contractor needs to inform the MOD about difficulties they may have in the availability of the financial information they need to meet this reporting requirement; • the specification or requirement under the contract and the extent to which the DPS lines apply (e.g. a whole platform may require more lines to be completed than a component); and • all reasonable efforts should be made to include cost data accurately or at least to the nearest £10,000. Contractors should report at this level of accuracy unless the MOD agrees that a lower level of precision is required. <p>At each DPS level, DefCARS will aggregate data provided at lower levels, so that at the top level (level one), the DPS will show the total allowable costs (excluding risk contingency). The DPS structure should include outputs that will be provided by sub-contractors.</p>	<p>The contractor should report against the relevant DPS headings and agree the approach being taken with the MOD. The contractor should consider the following things when discussing with the MOD:</p> <ul style="list-style-type: none"> • whether the number of lines selected in the DPS is proportionate for the quantum of Allowable Costs being reported; • whether the contractor needs to inform the MOD about difficulties they may have in the availability of the financial information they need to meet this reporting requirement; • the specification or requirement under the contract and the extent to which the DPS lines apply (e.g. a whole platform may require more lines to be completed than a component); • the DPS structure should include outputs that will be provided by sub-contractors; and • all reasonable efforts should be made to include cost data accurately or at least to the nearest £10,000. Contractors should report at this level of accuracy unless the MOD agrees that a lower level of precision is required. 	<p>First sentence after the bullets is being deleted as it is duplicative of earlier guidance. The second sentence after the bullets incorporated into the list of bullets.</p>

Current Guidance	Proposed Changes	Rationale for change
	<p>If a QDC or QSC provides support for equipment, the contractor should:</p> <ul style="list-style-type: none"> • Select the DPS for the equipment type to which the support relates. • Report the support costs against the output to which they are most closely related. <p>The Specialist Equipment DPS should only be used if the contract is to provide support to an equipment type which is not covered in one of the other 15 templates.</p>	<p>A new paragraph which deals specifically with support contracts where reporting can be problematic for contractors with this type of contract.</p>
Guidance on metrics		
<p>4.66 The DPS templates include examples of output metrics which may be useful. Metrics can also be drawn from the contractor's performance management system or from the contract itself.</p>	<p>4.69 The DPS templates include examples of output metrics which may be useful. Metrics can also be drawn from the contractor's performance management system or from the contract itself. The contractor should involve the MOD in identifying the output metrics to be included in contract reports and how these should be linked to the DPS. This should be performed before the contract is entered into and the contractor begins to prepare their reports.</p>	<p>Two new sentences added, as suggested in the SSRO's Review of Legislation (ROL) proposals to suggest that the contractor involves the MOD in identifying the output metrics to be reported and how they are linked to the DPS.</p>

The SSRO seeks stakeholder views on the proposed changes to reporting guidance relating to the DPS.

Appendix 7 – Summary of consultation questions

Appendix 1 – Rounding in validations

- The SSRO welcomes views from stakeholders on the rules to be applied when comparing fields within DefCARS submissions.
- The SSRO welcomes views from stakeholders on the proposed guidance set out in Table 2.

Appendix 2 – Linking compliance issues to action owners

- The SSRO welcomes views from stakeholders on its proposals for:
 - » the system to automatically indicate the next action on an issue to a specified organisation; and
 - » updating the information included within automated email notifications.
- The SSRO welcomes views from stakeholders on the proposed guidance relating to the compliance issue logging functionality within DefCARS as set out in Table 3.

Appendix 3 – Reporting sunk and committed elements in a contract

- Should the SSRO change the current approach to generating annual profiles in DefCARS?
- The SSRO welcomes views on the proposals in relation to allowable costs and specifically the following questions:
 - » Whether the SSRO should change the Allowable Costs guidance alongside the reporting guidance, or wait until 1 April 2022?
 - » Whether the proposed guidance changes help clarify how to apply the AAR principles to sunk and committed costs and report sunk and committed price.

Appendix 4 - Reporting on-demand report due dates in the Contract Reporting Plan

- The SSRO seeks stakeholder views on whether the guidance changes explain how contractors should submit on-demand report information under the proposed changes to the Reporting Plan page of DefCARS.

Appendix 5 – Amended sub-contracts

- The SSRO seeks views on whether the proposed guidance clarifies:
 - » the circumstances in which a new contract can be created as a result of an amendment to an existing contract; and
 - » the impacts on reporting, including reporting QSC assessments and the prices of QDCs or QSCs.

Appendix 6 – Defined Pricing Structure (DPS) principles

- The SSRO seeks stakeholder views on the proposed changes to reporting guidance relating to the DPS.

