SSRO

Single Source
Regulations Office

Developing an information technology services activity group

Consultation

8 October 2021

Contents

1. Introduction

Background

1.1   The SSRO applies its [Single Source Baseline Profit Rate, Capital Servicing Rates and Funding Adjustment Methodology](#) ("profit rate methodology")[1] to benchmark a profit rate for four activity groups:

- Develop and make (D&M);

- Provide and maintain (P&M);

- Ancillary services; and

- Construction.

1.2   The SSRO is seeking to develop an information technology (IT) services activity group, which might be used to benchmark a profit rate for defence contracts that are for the provision of IT services.

1.3   The SSRO considered an IT services activity group during the initial development of the profit rate methodology in 2016. We did not take IT services forward as a distinct group at that time because we did not perceive there to be sufficient requirement. We are now reviewing that position because stakeholders have represented that the IT sector is insufficiently represented in the existing four activity groups and the recent Defence and Security Industry Strategy (DSIS) set out proposals that may alter the make-up of what MOD chooses to procure without competition. We believe that attempting to develop a distinct IT services activity group is an effective approach to analysing and understanding the activity in relation to qualifying contracts.

1.4   The SSRO has considered stakeholder feedback provided to date, alongside our own research, to develop a draft methodology. We are seeking input on whether we have correctly captured the IT services activities that may contribute to the delivery of QDCs and QSCs so that we can further develop the approach.

Consultation structure

1.5   The consultation document is structured as follows:

- Section 2 sets out the process for developing an activity group.

- Section 3 sets out the sectors we are proposing to address with this IT services activity group.

- Section 3 contains the proposed activity characterisation.

- Section 4 contains the proposed NACE codes and text search terms.

- Section 5 presents the consultation questions.

- Section 6 contains appendices.

1.6   The SSRO invites all interested parties to respond to the consultation by 5 November 2021, in accordance with section 6 of this document.

---

1   https://www.gov.uk/government/publications/2021-contract-profit-rate

Proposed timetable

1.7   The proposed timetable for this consultation is summarised in Table 1. We welcome proposals on alternative timetabling if stakeholders have concerns about the timings of any of the specified activities.

Table 1: Proposed timetable

Dates	Activity
8 October 2021	Consultation publication
5 November 2021	End of consultation
November 2021 to January 2022	Further analysis
December 2021	SSRO Board considers outcome of consultation on IT services activity group
March 2022	Consider publication of a preliminary IT services activity group analysis alongside the annual rates recommendation
2022/23 onwards	Consider if and how to integrate the IT services activity group into future baseline profit rate assessments.

2. Activity group development process

Activity groups in general

2.1 The SSRO's activity groups are developed in accordance with transfer pricing principles, which include the arm's-length principle and provide an approach to pricing transactions on an arm's-length basis. The [OECD Guidelines on Transfer Pricing for Multinational Enterprises and Tax Administrations](2) ("the Guidelines") set out a widely accepted interpretation of the arm's-length principle together with advice on how this may be implemented and assessed.

2.2 Box 1 sets out an overview of the application of the arm's-length principle as it would apply in the context of international taxation. In common with this approach, the SSRO is seeking to establish an appropriate rate of profit for a transaction that is not carried out on an arm's-length basis. In our case this is because the nature of the transaction precludes a competitive tendering process rather than because the two parties are related enterprises. Although the underlying purpose of determining an arm's-length profit ultimately differs, we believe it provides a sound foundation to benchmark profit rates for different activities.

2.3 Assessing the appropriate rate of profit involves identifying similar transactions that are carried out on an arm's-length basis. To find similar transactions, economically relevant characteristics, or comparability factors, are considered as part of the process set out in Box 1. These are broadly categorised in the transfer pricing guidelines as follows:

- The contractual terms of the transaction.

- The functions performed by each of the parties to the transaction, taking into account assets used and risks assumed, including:

    a. how those functions relate to the wider generation of value of the entity to which the contracting parties belong;

    b. the circumstances surrounding the transaction; and

    c. industry practice.

- The characteristics of the property transferred or services provided.

- The economic circumstances of the parties and of the market in which the parties operate.

- The business strategies pursued by the parties.

2.4 The extent to which any one of the characteristics categorised above is economically relevant in a particular transaction depends on the extent to which it would be taken into account by independent enterprises when evaluating the terms of the same transactions were it to occur between them.

2.5 An activity group is a group of companies that carry out activities that are similar, to an appropriate extent, to the activities we are seeking to benchmark.

---

2 https://www.oecd.org/tax/transfer-pricing/oecd-transfer-pricing-guidelines-for-multinational-enterprises-and-tax-administrations-20769717.htm

Box 1: Application of the 'arm's-length principle' in the context of international taxation

Step 1: Determination of years to be covered.

Step 2: Broad-based analysis of the taxpayer's circumstances.

Step 3: Understanding the controlled transaction(s) under examination, based in particular on a functional analysis, in order to choose the tested party (where needed), the most appropriate transfer pricing method to the circumstances of the case, the financial indicator to be tested (in the case of a transactional profit method), and to identify the significant comparability factors to be taken into account.

Step 4: Review of existing internal comparables, if any.

Step 5: Determination of available sources of information on external comparables where such external comparables are needed taking into account their relative reliability.

Step 6: Selection of the most appropriate transfer pricing method and, depending on the method, determination of the relevant financial indicator (e.g. determination of the relevant net profit indicator in case of a transactional net margin method).

Step 7: Identification of potential comparables: determining the key characteristics to be met by any uncontrolled transaction in order to be regarded as potentially comparable, based on the relevant factors identified in Step 3 and in accordance with the comparability factors set forth at Section D.1 of Chapter 1.

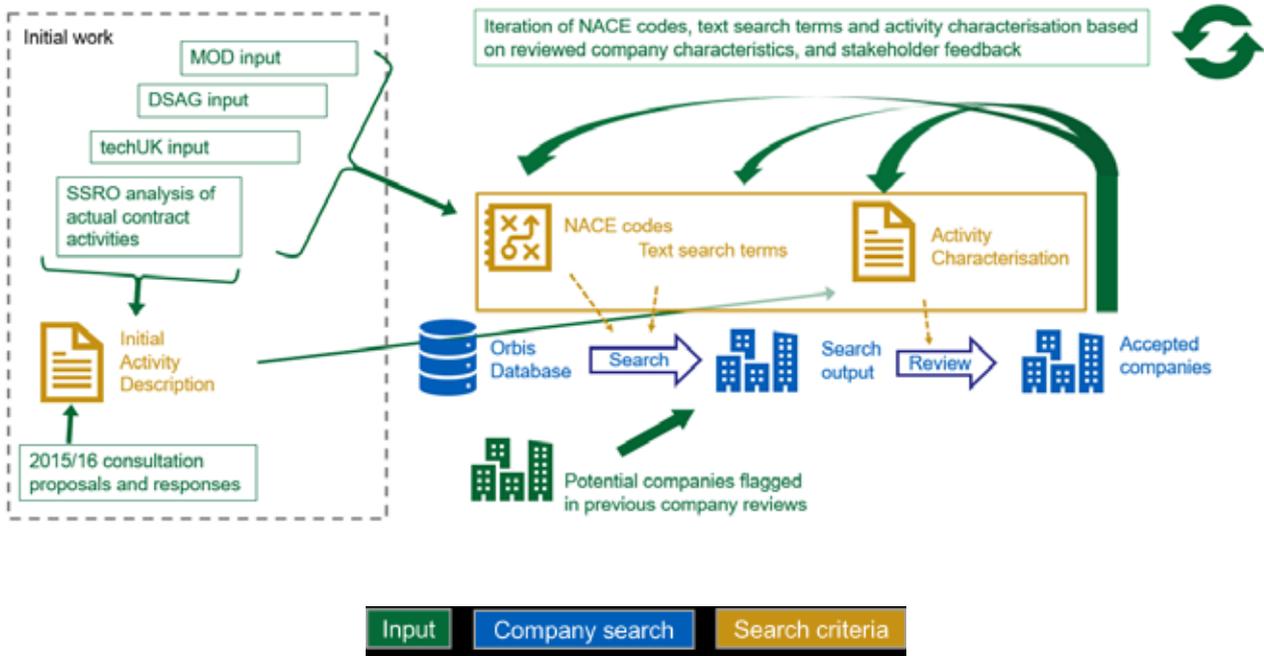Step 8: Determination of and making comparability adjustments where appropriate.

Step 9: Interpretation and use of data collected, determination of the arm's-length remuneration.

OECD Guidelines, paragraph 3.4

2.6   The development of an activity group within the SSRO's existing BPR methodology primarily focuses on carrying out a **functional analysis** as part of step 3 and reviewing **internal comparables** (companies that are known to be carrying out those activities being searched for) as part of step 4. The other aspects are common across the different activity groups and are therefore not a topic of this consultation.

2.7   The functional analysis and review of internal comparables are used to develop three elements, which are used to select comparators for an activity group:

- **activity characterisation**: captures a short description of the activities a comparator company is expected to carry out;

- **text search terms**: keywords that are used to filter the full database, depending if one or more words appear in a narrative description of that company's activities provided by the database; and

- **NACE codes**: standardised descriptors that are used to filter the full database, depending if one or more codes are used to classify that company's activities in the database.

2.8   The next sections present initial proposals for the above three elements. The process to develop these elements is iterative, taking account of SSRO work and feedback from stakeholders, as illustrated in Figure 1.

Figure 1: Development of IT services activity group characterisation, NACE codes and text search terms

3. Sectors addressed by the IT services activity group

3.1   We have reviewed activities carried out in the IT services sector to identify whether an IT services activity group can be identified which is distinct from the SSRO's existing activity groups. We have considered feedback to date from the MOD and industry and looked at:

- which activities may already be addressed by an existing activity group;

- whether there are activities for which the application of cost-based pricing within the single source framework is not expected to be necessary or suitable; and

- whether there are activities that remain unaddressed that should form the basis of an IT services activity group.

3.2   The activity descriptions for the existing four activity groups are presented in Appendix 1. The following IT services activities are addressed by an existing activity group:

- IT support services already captured by the ancillary services activity characterisation, such as data management, data processing, network hosting, IT repairs and maintenance and IT security services;

- development of IT systems that are embedded in equipment, which are addressed by the D&M activity characterisation;

- support and maintenance of IT systems that are embedded in equipment, which are addressed by the P&M activity characterisation; or

- fixed point construction activities already captured by the construction activity characterisation.

3.3   The Defence and Security Industrial Strategy (DSIS) includes plans to introduce new ways of determining a fair price for goods or services sold in open markets.[3] In the context of IT services activities this may include subscriptions to off-the-shelf software, the supply of off-the-shelf hardware, or off-the-shelf items that are immaterially modified.

3.4   IT services activities may be carried out by temporary workers, working under MOD's direct supervision. Temporary workers are hired on an 'on-demand' basis to complete specific tasks and we consider:

- framework contracts for the provision of contingent labour are less likely to be sourced on a non-competitive basis; and

- it is unlikely that arrangements with individual workers would exceed the QDC threshold of £5 million.

---

3   https://www.gov.uk/government/publications/defence-and-security-industrial-strategy

3.5 What is remaining from this process, informed by our initial engagement with the MOD and industry, are the following categories that were suggested as activities that are, or might be expected to be, going on in separate contracts, and which would be relevant for an IT services activity group:

- development of bespoke IT software;

- integration of off-the-shelf components to deliver a bespoke IT service; and

- provision and maintenance of communication infrastructure.

3.6 This consultation focuses on creating a new activity group that will address the types of activities identified in the first two bullets of paragraph 3.5.

3.7 We have reviewed activities associated with the provision and maintenance of communication infrastructure (the third bullet in paragraph 3.5) and our current view is that they should not be considered as part of a new activity group. We think the provision and maintenance of communication infrastructure is an activity that is somewhat aligned to existing activity groups. For example:

- the supply and maintenance of communication infrastructure is similar in nature to the provision and maintenance of equipment, which is part of the P&M activity group; and

- the construction of some telecommunications infrastructure is similar in nature to a typical construction activity, which involves civil engineering works in the form of the erection of structures in a fixed location.

3.8 In addition, the provision of communication infrastructure, including mobile and fixed telephony in national jurisdictions of Western Europe and North America is often dominated by a few regulated companies[4] and the sector is characterised by distributors who buy and re-sell products from the dominant companies. We think there are unresolved issues about how the single source pricing framework and profit benchmarking could be made to apply to the procurement of price regulated utilities. We have considered these factors and concluded that at this stage, these activities should not form part of the IT services activity group we are seeking to develop.

3.9 Investigating this further, or altering the existing activity groups would be a more major exercise than developing a new group in isolation, as is proposed here. We are open to stakeholder feedback on if we should consider altering those groups in the future. There will be opportunities over the coming months to provide input on the regulatory issues that the SSRO should prioritise for attention in 2022/23 as part of our corporate planning process.

3.10 We welcome stakeholder feedback on our assessment of the activities that should be addressed by an IT services activity group.

> **Question 1:** Has the SSRO identified a suitable set of activities that should be addressed by an IT services activity group? We welcome suggestions for modification to the scope with an explanation of any benefits.

---

4 For example, the UK market is dominated by BT, Vodafone, Three (3) and O2, and is regulated by the Office of Communication (Ofcom).

4. Activity characterisation

Background

4.1   The SSRO's activity characterisations are written descriptions of economic
        activities which correspond to types of activity that contribute to the delivery of
        QDCs and QSCs. The activity descriptions for the existing four activity groups are
        presented in Appendix 1. The typical components of an SSRO activity description
        include:

- Summary:

  » The activity we are seeking

  » Clarification on aspects of the activity where the decision may be
    judgemental

  » Clarification on the types of risk borne by the comparator

- Detailed description of activities carried out by the comparator:

  » The type of contractual relationship observed in defence procurement we are
    seeking to find comparators for

  » Examples of the functions performed by the company under review that
    would indicate comparability

  » Examples of the characteristics of the goods or services provided by the
    company under review that would indicate comparability

  » Clarification on activities often observed in the companies under review
    where the decision may be judgemental

- Detailed description of how value is added by the comparator:

  » How the activities being performed should generate value for the comparator

  » Examples of value generation that would indicate the company under review
    is less likely to be comparable

  » Clarification on activities often observed in the companies under review that
    are acceptable if they are supporting the primary value generation

  » Examples of value generation that would indicate the company under review
    should be rejected

- End customers and the market in which the comparator operates:

  » Summary of the characteristics of the end customers of the activity

  » Examples of market segments that would typically indicate the company is
    not serving the right end customers

Information sources

4.2   To develop the activity characterisation, the SSRO considered the nature of the activities that the MOD currently contracts for in this sector (identified in section 3). We looked at information from the following sources:

- Contracts Finder, the MOD's Contracts Bulletin, and MOD contracts collated by bidstats[5] to identify and understand the type of contracts being awarded;

- MOD input regarding the characteristics of IT services it procures and how it contracts for them;

- information about QDCs for IT services contained in statutory reports in the Defence Contract Analysis and Reporting System (DefCARS); and

- representations from industry.

4.3   This information was used to identify internal comparables (companies that are known to be carrying out those activities being searched for). We then considered the nature of the activities those companies carry out and developed a draft IT services activity characterisation, in a similar format and style to our existing activity characterisations.

Identifying internal comparables

4.4   To identify potential internal comparables, the SSRO used an iterative approach involving:

- identifying companies that carry out IT services activities, initially from stakeholder suggestions and reviewing MOD supplier statistics for companies not already in an SSRO activity group that may be doing IT services activities;

- identifying contracts that those companies have with the MOD;

- identifying other MOD contracts for similar activities (using Common Procurement Vocabulary (CPV)[6] codes), considering if they are contracts for IT services, and considering the companies that hold those contracts for inclusion; and

- iterating and refining the list to ~10 companies most closely aligned to the IT services sector.

4.5   Where a company has subsidiaries, the SSRO's methodology requires the use of the results of the whole corporate group. Where a group carries out IT services activities for the MOD alongside other work, the financial data of the group may not be useful for benchmarking purposes. For example, BT provides the MOD with telephony services but the results of the group as a whole are significantly influenced by the group's consumer operations, making it unsuitable as an internal comparable. The SSRO identified 9 potential 'internal comparables', which are set out in Table 2.

---

5   bidstats.uk sources procurement notices from the Official Journal of the European Union, Contracts Finder and Find a Tender and stores them in one database.

6   CPV codes have been developed by the European Union as standardised codes to help the procurement process. Each CPV code has a description of a unique economic activity it represents.

Table 2: Potential internal comparables and their corresponding economic activities

Potential internal comparable	Primary NACE code	NACE description
Atos SE	6209	Other information technology and computer service activities
CGI Inc.	7022	Business and other management consultancy activities
DXC Technology Company	6201	Computer programming activities
Softcat PLC	6209	Other information technology and computer service activities
Sopra Steria Group	6201	Computer programming activities
Capgemini	6209	Other information technology and computer service activities
Centerprise	2620	Manufacture of computers and peripheral equipment
Tisski	6202	Computer consultancy activities
Fujitsu	3571	Electronic computers

Characterising activities

4.6   The SSRO reviewed website and financial reports to understand the economic activities undertaken by the identified potential internal comparables. For each internal comparable, we identified the CPV codes associated with their MOD contracts and the associated economic activities (see Table 2).

4.7   We used the information on the economic activities undertaken by the internal comparables to develop the proposed IT activity characterisation set out in Table 3.

4.8   The SSRO seeks feedback on the proposed IT activity characterisation in Table 3. We welcome views from stakeholders on whether the proposed activity characterisation aligns with the MOD's IT defence contracts.

> **Question 2:** Does the characterisation the SSRO has drafted accord with your expectation of the type of activities which contribute to the delivery of defence contracts for IT services? Do you have any suggestions for how it could be improved?

Table 3: Proposed IT services activity characterisation

Component	Proposed IT services activity characterisation
The activity we are seeking	Companies undertaking comparable activities considered as 'IT Services' are expected to engage in the development of bespoke and complex IT systems or support their ongoing operation and maintenance.
The type of contractual relationship observed in defence procurement we are seeking to find comparators for	Comparable activities would typically be of a type that can be likened to those involved in the design, production or manufacture, integration or operation of computer systems or networks used for military or defence purposes.
Examples of the characteristics of the goods or services provided by the company under review that would indicate comparability	This could cover a broad range of IT consultancy services, software development, or cybersecurity services. Comparable companies may also provide the hardware for systems or networks, or the training necessary to operate or maintain them. Comparable IT consultancy services would typically be hardware consultancy (for example hardware selection, integration, acceptancy testing and recovery; disaster recovery; computer site planning and computer audit); software consultancy (for example business analysis, system quality assurance and review, or system software acceptance and testing); or other computer consultancy (for example, computer network services, systems maintenance, automation, and network management). Comparable software or application development or cybersecurity activities would typically include systems design, programming, software integration, software testing, security architecture design, penetration testing, end user security training, or forensic analysis of breaches.
Clarification on activities often observed in the companies under review where the decision may be judgemental	A bespoke IT system is tailored to the specific customer operating model and requirements. This may include new development or may include the integration or customisation of underlying systems or software created by others. Companies that resell software or applications without tailoring or integrating them are less likely to be carrying out comparable activities.
How the activities being performed should generate value for the comparator	The value added, cost base or profits of the business are expected to principally derive from the services described above.

Component	Proposed IT services activity characterisation
Clarification on activities often observed in the companies under review that are acceptable if they are supporting the primary value generation.	Where the IT system is embedded within equipment (for example a ship or a vehicle), a comparable company would not typically be expected to carry out equipment design, manufacturing or maintenance activities that extend beyond what might reasonably be required to deliver the underlying system. A similar exclusion applies for an IT system that is embedded within network infrastructure (for example telecommunications or internet provision).
Examples of value generation that would indicate the company under review should be rejected.	Companies that engage in IT services with low levels of complexity would not typically be considered comparable, for example the provision of IT support services (for example, data management, data processing, network hosting, IT repairs and maintenance and IT security services), routine software maintenance, or off-the-shelf solutions.
Summary the characteristics of the end customers of the activity	The end customers for the services provided by comparable companies are expected to be other businesses, institutions or governments.
Examples of market segments that would typically indicate the company is not serving the right end customers	Comparable companies are not expected to primarily engage in the development of public infrastructure or serve the general public with, for example, computer hardware and software and internet services. Companies that primarily serve customer-facing industries, such as financial services, media and advertising, hospitality or retail are less likely to be carrying out comparable activities.

5. NACE codes and text search terms

Background

5.1   The SSRO uses the Orbis[7] database to identify comparable companies, which contains information on nearly 400 million companies. The SSRO first applies financial and geographic criteria which are common to all activity types. The SSRO then uses NACE[8] codes and text descriptions within the database to screen companies that are more likely to fall within a specific comparator group. SSRO staff then review the websites and, if required, financial statements of those companies and accept companies into a comparator group if they meet the relevant activity and market characterisation. The SSRO calls this process, which is illustrated in Figure 2, a company search process.

Figure 2: Company search process

5.2   The choice of NACE codes and text search terms is a balance between having a manageable number of companies to manually review and the risk of unintentionally excluding a relevant comparator.

Selecting text search terms

5.3   Within Orbis, each company is provided with a brief trade description, primary business line description and full overview description which indicate their business activities. We search for keywords within these fields and if one or more words are present the company may progress to the next stage of the company search process.

5.4   To identify text search terms for the IT services activity group we:

   a. selected words from the activity characterisation (Table 3, section 4) that represent the economically significant functional activities undertaken by companies for the IT services activity type;

   b. included the words "defence*", "defense*" and "military*", which are common across all our activity groups in order to capture companies in the defence sector; and

   c. considered words that are commonly used in the NACE code descriptions of the 128 companies identified as potential comparator companies (see 5.11 below), bearing in mind that some common words may not be specific to the activities we are seeking to benchmark.

5.5   The text search terms that are proposed are presented in Table 4.

---

7   Orbis is a company-specific information database, supplied by Bureau van Dijk, a Moody's Analytics company.

8   Statistical Classification of Economic Activities in the European Community (NACE). The current version is revision 2 and was established by Regulation (EC) No 1893/2006.

Table 4: Proposed text search terms

Text search terms			
IT!	portal*	program*	digit*
comput*	hardware*	miltar*	cloud*
web*	software*	defence*	cyber*
network*	information*	defense*	technology*

"!" denotes where a search is case sensitive.

"*" denotes a part word, for example "digit*" includes "digital", "digitised", "digitized", etc

5.6   The SSRO seeks feedback from stakeholders on whether they think the proposed text search terms align with their expectations of the economic activities undertaken for the purposes of IT services contracts the MOD enters into.

Selecting NACE codes

5.7   NACE provides a framework for collecting and presenting a large range of statistical data according to economic activity. It consists of a hierarchical structure (as established in the Regulation (EC) No 1893/2006[9]). Within Orbis, each company is assigned NACE codes, which can be used to easily assess its activities in a standardised manner. We search for companies that have particular NACE codes and if one or more codes are present the company may progress to the next stage of the company search process.

5.8   To identify NACE codes for the IT services activity group we first:

   a. mapped the CPV codes of contracts identified from the potential internal comparables analysis (Table 2) to corresponding NACE codes; and

   b. considered codes suggested by industry stakeholders.

5.9   We then used those NACE codes, alongside the standard financial and geographic criteria that we use in our baseline profit rate assessment, to search the Orbis database for potential comparable companies.[10] 1,311 companies were delivered by this search. We then conducted a review against the proposed activity characterisation (section 4), identifying 128 companies as potential comparator companies.[11] A list of these companies is presented in Appendix 2.[12]

---

9   https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32006R1893

10 The search was based on company information reported in Orbis for the year ending 2019/20. This information is for the same period used in the assessment of the 2021/22 rates.

11 This involved a basic review of each company. Should the SSRO proceed to calculate a benchmark profit rate following the outcome of the consultation, a more detailed review would be undertaken to provide the necessary level of assurance that the selected companies are appropriate.

12 Note some companies listed in table 2 did not meet the standard financial and geographic search criteria at the time of this search, and therefore may not be included in Appendix 2.

5.10   We rejected 1,183 companies as our assessment was that they did not undertake the activities set out in the draft activity characterisation. The most common reasons for rejection were that the companies engaged in:

- activities addressed by one of the existing four activity groups;

- activities which predominantly target the general public as the customer base;

- constructing and maintaining telecoms infrastructure;

- providing publishing or printing services;

- providing services to the financial or insurance sector;

- logistics, distribution or point-of sale software and services;

- developing and selling gaming software;

- activities related to marketing or advertising; and

- reselling off-the-shelf IT products.

5.11   To identify the final proposed NACE codes for the IT services activity group we selected four NACE codes that are common to the 128 potential comparators. We consider these NACE codes to be the most commonly associated with the IT services activities we are seeking to benchmark. Table 5 presents a full list of initial NACE codes used for searching the 1,311 interim potential comparators, the NACE codes we propose for the IT services activity group, and reasons for the NACE codes that have been excluded from the proposed list.

5.12   The SSRO seeks feedback from stakeholders on whether they think the proposed NACE codes align with their expectations of the economic activities undertaken by the IT defence contracts the MOD enters into.

> **Question 3:** Do you support the text search terms and NACE codes proposed?

Table 5: NACE codes

NACE code used in the initial data download	NACE code description (economic activity)	Proposed NACE codes	Reason for exclusion from the proposed NACE codes
5829	Other software publishing	☑	n.a
6201	Computer programming activities	☑	n.a
6202	Computer consultancy activities	☑	n.a
6209	Computer information technology and computer service activities	☑	n.a
2611	Manufacture of electronic components	☒	Equipment manufacture is already addressed through the D&M group; these codes tend to deliver companies manufacturing commoditised products
2620	Manufacture of computers and peripheral equipment	☒	
6110	Wired telecommunications activities	☒	We are not seeking to address telecommunications infrastructure with the proposed group because we think are more aligned to the P&M and construction activity types
6120	Wireless telecommunications activities	☒	
6190	Other telecommunications activities	☒	
6203	Computer facilities management activities	☒	These codes are not currently included in the ancillary services search, but they generally deliver companies that might be expected to fall within that group, rather than the activities we are seeking to benchmark with this new group.
6311	Data processing, hosting and related activities	☒	Already considered under the ancillary services search

NACE code used in the initial data download	NACE code description (economic activity)	Proposed NACE codes	Reason for exclusion from the proposed NACE codes
6312	Web portals	☒	This code was previously part of the ancillary services search, but was removed due to primarily delivering companies serving the public
7490	Other professional, scientific and technical activities n.e.c	☒	Already considered under the P&M search.
8020	Security systems service activities	☒	Already considered by the ancillary services search
8299	Other business support services activities n.e.c	☒	
9511	Repair of computers and peripheral equipment	☒	The Orbis search returned only one company with this as its primary code, and the company was rejected
9512	Repair of communication equipment	☒	The Orbis search did not return any company with this as its primary code

6. Consultation questions

6.1   The SSRO invites stakeholder views, together with supporting evidence where appropriate, on matters raised above and specifically on the following consultation questions:

1. Has the SSRO identified a suitable set of activities that should be addressed by an IT services activity group (section 3)? We welcome suggestions for modification to the scope with an explanation of any benefits.

2. Does the characterisation the SSRO has drafted (Table 3, section 4) accord with your expectation of the type of activities which contribute to the delivery of defence contracts for IT services? Do you have any suggestions for how it could be improved?

3. Do you support the text search terms and NACE codes proposed (Tables 4 and 5, section 5)? Please provide any suggested improvements/amendments where appropriate.

4. Do you consider the companies set in Appendix 2 to undertake the type of activities which contribute to the delivery of defence contracts for IT services? Do you have suggestions of additional companies we should consider?

5. Do you have further comments on the development of the IT services activity group?

6.2   Consultees do not need to answer all the questions if they are only interested in some aspects of the consultation.

6.3   A consultation response form containing these questions has been published alongside this consultation document on the SSRO's website. Completed response forms should be sent:

- by email, including arranging an appointment to speak to the SSRO about the consultation to: **consultations@ssro.gov.uk** (preferred).

- by post to: Baseline profit rate consultation, SSRO, Finlaison House, 15-17 Furnival Street, London, EC4A 1AB.

- by telephone, including arranging an appointment to speak to the SSRO about the consultation: 020 3771 4767.

6.4   Responses to the consultation should be received by 5.00pm on Friday 5 November 2021. Responses received after this date will not be taken into account in finalising the IT services activity group development, but may be used to inform future IT services activity group modifications.

6.5   The SSRO also welcomes the opportunity to meet with stakeholders to discuss the proposals during the consultation period. If you wish to arrange such a meeting, please contact us at the earliest opportunity using the details above.

6.6   In the interests of transparency for all stakeholders, the SSRO's preferred practice is to publish responses to its consultations, in full or in summary form. Respondents are asked to confirm in the response form whether they consent to their response being published and to the attribution of comments made. Where consent is not provided comments will only be published in an anonymised form.

6.7   Stakeholders' attention is drawn to the following SSRO policy statements, available on its web site,[13] setting out how it handles the confidential, commercially sensitive and personal information it receives and how it meets its obligations under the Defence Reform Act 2014, the Freedom of Information Act 2000, the UK General Data Protection Regulation and the Data Protection Act 2018.

• The Single Source Regulations Office: Handling of Commercially Sensitive Information; and

• The Single Source Regulations Office: Our Personal Information Charter.

---

13 https://www.gov.uk/government/organisations/single-source-regulations-office/about/personalinformation-charter

7. Appendices

Appendix 1: Existing activity characterisations

Component of an activity description	Develop and Make	Provide and maintain	Ancillary Services	Construction
The activity we are seeking	Companies undertaking comparable activities considered as 'Develop and Make' are expected to engage in manufacturing and the design and development contributing to that process	Companies undertaking comparable activities considered as 'Provide and Maintain' are expected to deliver services to ensure the availability of an asset either through repair and servicing to third party equipment, or through hire or lease arrangements that include associated upkeep and maintenance services.	Companies undertaking comparable activities considered as 'Ancillary Services' are expected to deliver either one of administrative, facilities or IT support activities.	Companies undertaking comparable activities considered as 'Construction' are expected to deliver services in relation to the construction of buildings or other structures at fixed locations.
Clarification on aspects of the activity where the decision may be judgemental	This would therefore not include manufacturing on behalf of a hiring firm that supplies the design, or those solely undertaking research or design work with no associated manufacturing. Where development activities do not seek to result in a novel or differentiated product the company is less likely to be considered comparable.			Companies could provide such services either on a contract basis with designs and specifications received or using their own designs.

Component of an activity description	Develop and Make	Provide and maintain	Ancillary Services	Construction
Clarification on the types of risk borne by the comparator			Companies undertaking these support services are not expected to bear any significant risks other than that of failing to provide the contracted outputs. This captures risk in relation to the delivery of the services, contract risk, procurement risk, staff risk and some quality control risk in respect of these activities	Comparable companies may be responsible for the management of the construction project, and are likely to bear contract risk, procurement risk, staff risk and some quality control risk in respect of these activities. They are not expected to bear any significant property price risk in respect of these activities
The type of contractual relationship observed in defence procurement we are seeking to find comparators for	Comparable activities would typically be of the type that can be likened to those involved in producing equipment used for military or defence purposes	Comparable activities would typically be of the type which can be likened to those involved in the support and provision of equipment used for military or defence purposes		
Examples of the functions performed by the company under review that would indicate comparability	This would include scientific or technical research, design, development or testing activities leading to the production of self-contained sub-systems or finished goods. To the extent that a product is being assembled or constructed then it is likely to represent comparable manufacturing.			

Component of an activity description	Develop and Make	Provide and maintain	Ancillary Services	Construction
Examples of the characteristics of the goods or services provided by the company under review that would indicate comparability	This could cover a broad range of products such as structural metal goods, machinery, electronic and mechanical sub-systems, vessels, containers, general machinery, ships, aircraft, and wheeled or tracked vehicles or other means of transportation and other items of machinery of an industrial nature.	This could cover a broad range of products such as structural metal goods, machinery, electronic and mechanical sub-systems, vessels, containers, general machinery, ships, aircraft, and wheeled or tracked vehicles or other means of transportation and other items of machinery of an industrial nature. Comparable companies may also provide the facilities embodying or integrating the equipment and the training necessary to operate or maintain these assets. Repair and servicing activities include arrangements where spares and labour are charged for as they are required, or may include these costs as part of a longer term contracting arrangement.	Administrative support relates to outsourced business services such as payroll processing, call centres, HR, basic book-keeping, routine tax or legal advice and other clerical work. IT support services would include data management, data processing, network hosting, IT repairs and maintenance and IT security services. Facilities support services would include property cleaning, property repairs and maintenance, canteen services, laundry, gardening and general guarding and security services.	Buildings would include industrial buildings such as factories, warehouses, plants, and public, commercial or residential buildings of steel-frame or concrete construction (not individual houses) and may include the associated design services. Civil engineering works in the form of the erection of structures in a fixed location, for example in metal and concrete, would also be considered comparable. To the extent that civil engineering works relates to the assembly of a structure at a fixed location then it is more likely to be considered as 'Construction'.

Component of an activity description	Develop and Make	Provide and maintain	Ancillary Services	Construction
Clarification on activities often observed in the companies under review where the decision may be judgemental	If the product is a commoditised unit or processed raw manufacturing input, for example a generic electrical or mechanical components, sheet metal, shaped plastic, ancillary items such as basic tools, then this may not be sufficiently complex and is likely to be excluded. Electronic or mechanical assemblies or sub-systems that are complex and not of a commoditised nature are more likely to be considered the output of a comparable manufacturing process.	Diagnosis, repair and installation activities would be expected to require an in-depth knowledge of the asset being serviced. This would exclude companies whose capabilities are limited to rudimentary work, such as those involving user-serviceable parts or domestic installations (for example domestic white goods). Hire and leasing arrangements should be focused on items of an industrial or commercial nature		To the extent that companies engage in tunnelling, pipe-laying, highways maintenance or river and coastal work, these activities are not expected to extend beyond what might reasonably be required to support the delivery of a structure. Speciality trade contractors, such as outfit contracting services (plumbing, ventilation, electrical installation and windows) must be demonstrably of an industrial nature and be active in the construction of the building.
How the activities being performed should generate value for the comparator	The value added, cost base or profits of the business are expected to principally derive from the manufacturing, design and development activities as described above.	The value added, cost base or profits of the business are expected to principally derive from the asset provision and maintenance activities described above.	The value added, cost base or profits of the business are expected to principally derive from the Ancillary Services activities described above.	The value added, cost base or profits of the business are expected to principally derive from the construction activities described above.

Component of an activity description	Develop and Make	Provide and maintain	Ancillary Services	Construction
Examples of value generation that would indicate the company under review is less likely to be comparable	For example, comparable firms would not be expected to derive the majority of their value added through the purchase of raw materials, luxury branding, the exploitation of patents and copyrights or distribution activities.	For example, the provision of aftersales service to products that a company manufactures or sells would be insufficient to consider a company to be comparable. Companies are unlikely to be comparable if they include a significant consumer-targeted sales and marketing model or the sale of associated finance products (for example in the case of consumer automotive sales).	Companies that engage in support services loosely connected to those described above, but which are of a specialised nature would not typically be considered comparable. Such non-comparable services would include provision of security services in prisons, the design and procurement of IT infrastructure, the services of chartered professionals, or the supply of clinical staff to hospitals. Companies that do not undertake activities akin to ancillary support services (for example recruitment, construction, software development, management consultancy, engineering consultancy) are not considered comparable.	Comparable companies are not expected to hold land for long-term appreciation purposes and as such those who engage primarily in real estate development would typically be excluded.

Component of an activity description	Develop and Make	Provide and maintain	Ancillary Services	Construction
Clarification on activities often observed in the companies under review that are acceptable if they are supporting the primary value generation.	It may be acceptable for comparable firms to engage in some loosely associated activities as part of delivering core comparable business (for example the procurement of inputs and the distribution and marketing of final goods). However, these activities are not expected to extend beyond what might reasonably be required to deliver the company's principal business.	It may be acceptable for comparable firms to engage in some loosely comparable activities as part of normal business (for example parts procurement, warehousing, logistics, installation, or the sale of the company's ex-hire fleet). However, these activities are not expected to extend beyond what might reasonably be required to deliver the company's principle business.		It may be acceptable for comparable companies to engage in some loosely comparable activities in the delivery of their core construction work (for example manufacturing or procurement of construction inputs, earthworks, provision of construction labour, building preservation, site clearance and recycling of reclaimed items from demolition). However, these activities should not be the focus of their business.
Examples of value generation that would indicate the company under review should be rejected.	Significant involvement in activities that are obviously non-comparable in nature (for example provision of financial services, marketing or food processing) would be cause to reject a company.	Significant involvement in activities which are obviously non-comparable in nature (for example manufacturing or distribution) is grounds for rejection.		Significant involvement in activities which are obviously non-comparable in nature (for example toll-road operation, property investment, interior design services) is grounds for rejection.
Summary of the end customers of the activity	The end customers for the outputs generated by comparable companies are expected to be other businesses, institutions or governments.	The end customers for the services provided by comparable companies are expected to be businesses, institutions or governments.	The end customers for the services provided by comparable companies are expected to be other businesses, institutions or governments.	The end customers for the services provided by comparable companies are expected to be other businesses, institutions or governments.

Component of an activity description	Develop and Make	Provide and maintain	Ancillary Services	Construction
Examples of market segments that would typically indicate the company is not serving the right end customers	Comparable companies are not expected to maintain marketing models, sales operations, large networks of product outlets or dealerships aimed at the general public.	Comparable companies are not expected to maintain significant marketing models or sales operations in relation to the goods they service, or large networks of service outlets or dealerships aimed at the general public.	Comparable companies are not expected to be entities which solely exist to provide these services to members of their own corporate group. Comparable companies are not expected to primarily serve the general public with, for example, domestic gardening or cleaning services.	Comparable companies are not expected to primarily serve the general public and as such domestic building services, roofing, flooring and general building maintenance contractors would not be considered comparable.

Appendix 2: List of potential IT services activity group comparators

	Company name	Primary NACE code	BVD ID
1	Absolute Software Corporation	5829	CA31333NC
2	Adesso AG	6209	DE4070444646
3	Akamai Technologies INC	7490/8299	US043432319
4	Allgeier SE	6209	DE8170610709
5	Allscripts Healthcare Solutions INC	5829	US364392754
6	Amdocs Limited	5829	GBGG19528
7	American Software INC	5829	US581098795
8	Ansys INC	5829	US043219960
9	Aspen Technology INC	6201	US042739697
10	Atea ASA	6209	NO920237126
11	Avaya Holdings Corp.	2630	US261119726
12	Barstone Limited	6209	GB05742283
13	Beta CAE Systems S.A.	6201	GR058283904000
14	Bjss Limited	6201	GB02777575
15	Bluesource Information Limited	6202	GB04064193
16	Bouvet ASA	7022	NO974442167
17	Brainlab AG	3250	DE8330270446
18	BridgingIT GmbH	6202	DE7170279787
19	Britannic Group (Holdings) Limited	6110	GB01903982
20	Caci International INC	6209	US541345888
21	Cancom SE	6209	DE8170916086
22	Capgemini	6209	FR330703844
23	Cast	6201	FR379668809
24	Cedacri S.P.A.	6201	IT00432960342
25	Cerner Corp	6201	US431196944
26	CGI Inc.	7022	CA30367NC
27	Citrix Systems INC	5829	US752275152
28	Cognicase Management Consulting SL	6202	ESB80440795
29	Cognizant Technology Solutions Corp	6201	US133728359
30	Columbus A/S	5829	DK13228345
31	Computacenter PLC	6209	GB03110569
32	Computer Modelling Group LTD	5829	CA31266NC
33	Computer Services, Inc.	6311	USMA66B9
34	CS Group	6209	FR692000946
35	CSP INC	6201	US042441294
36	Cynergistek, Inc.	7490/8299	US880350448
37	DXC Technology Company	6201	US611800317
38	Elecosoft PLC	2369	GB00354915
39	Enea AB	6201	SE5562097146
40	Entelgy Consulting SA	6202	ESA83456202
41	Equal Experts UK Limited	6202	GB06191086

	Company name	Primary NACE code	BVD ID
42	ESI Group	6201	FR381080225
43	Excelredstone Services Limited	6209	GB06468498
44	F5 Networks INC	6201	US911714307
45	Fiducia & GAD IT AG	6202	DE7110007106
46	Fortinet INC	2620	US770560389
47	F-Secure OYJ	6209	FI07055792
48	Generix Group	6201	FR377619150
49	GFT Technologies SE	6209	DE7330870309
50	IAR Systems Group AB	6190	SE5564007200
51	ICT Group N.V.	5829	NL24186237
52	Ideagen PLC	6201	GB02805019
53	Idox PLC	5829	GB03984070
54	IHK Gesellschaft fuer Informationsver-arbeitung mbH	6209	DE4070157857
55	Infotel	6201	FR317480135
56	Ingenieria E Integracion Avanzadas (Ingenia) SA	6201	ESA29584315
57	Innofactor OYJ	6209	FI06861637
58	Insta Group Oy	8211	FI01540885
59	Iomart Group PLC	6190	GBSC204560
60	IT Link	6209	FR412460354
61	Itera ASA	6201	NO980250547
62	Itway SPA	6209	IT01346970393
63	Kainos Group PLC	5829	GB09579188
64	Kinaxis Inc.	5829	CA40454NC
65	Knowit Objectnet AS	6201	NO980713520
66	KRATZER AUTOMATION Aktiengesellschaft	6209	DE8170511733
67	Lantronix INC	2630	US330362767
68	Manhattan Associates INC	5829	US582373424
69	Materna Information & Communications SE	6209	DE4070082461
70	Micro Focus International PLC	6201	GB05134647
71	Micropole	6209	FR341765295
72	Mitek Systems INC	5829	US870418827
73	NCR Corp	2823	US310387920
74	Nemetschek SE	5829	DE8170054051
75	Netapp, Inc.	2620	US770307520
76	Nixu OYJ	8020	FI07218117
77	Norcom Information Technology Gmbh & CO. Kgaa	5829	DE8170511779
78	Novabase - Sgps, SA	6209	PT502280182
79	Novotek AB	6209	SE5560609447

	Company name	Primary NACE code	BVD ID
80	Nuclys	6202	BE0861290318
81	Omnicell, Inc.	2620	US943166458
82	Onespan Inc.	6201	US364169320
83	Oracle Corp	5829	US542185193
84	Performance Technologies S.A	6209	GR094423506
85	Process Systems Enterprise Limited	6209	GB03307708
86	Prodware SA	6201	FR352335962
87	Prologue	6201	FR382096451
88	Prosource.It (UK) Ltd.	6209	GBSC242550
89	PSI Software AG	5829	DE2010000074
90	PTC Inc.	5829	US042866152
91	Qualys, Inc.	6201	US770534145
92	Redcentric PLC	6209	GB08397584
93	Reditus - Sociedade Gestora de Participa-coes Sociais S.A.	4651	PT500400997
94	Rimini Street Inc.	5829	US364880301
95	RM PLC	6209	GB01749877
96	Sailpoint Technologies Holdings, Inc.	5829	US471628077
97	Salesforce.Com, Inc.	5829	US943320693
98	SAP SE	5829	DE7050001788
99	Seidor SA	6209	ESA08854929
100	Servicenow, Inc.	6201	US202056195
101	Siili Solutions OYJ	6201	FI19799035
102	Sistemas Avanzados de Tecnologia, SA	6190	ESA33117995
103	SNP Schneider-Neureither & Partner SE	6201	DE7050127152
104	Societe Pour l'Informatique Industrielle	6209	FR315000943
105	Softcat PLC	6209	GB02174990
106	Software AG	5829	DE6050002673
107	Sopheon PLC	5829	GB03217859
108	Sopra Steria Group SA	6201	FR326820065
109	SSH Communications Security OYJ	6201	FI10358049
110	Sword Group SE	6209	LULB168244
111	Synectics PLC	2611/2640	GB01740011
112	Synopsys INC	5829	US561546236
113	Telos Corporation	6201	US520880974
114	Teradata Corporation	2620	US753236470
115	THE Descartes Systems Group INC	5829	CA31128NC
116	TIE Kinetix N.V.	5829	NL34072305
117	Tietoevry OYJ	5829	FI01011385
118	Triad Group PLC	5829	GB02285049
119	TSR INC	6201	US132635899
120	TXT E-Solutions SPA	6201	IT09768170152
121	Unisys Corp	6201	US380387840

	Company name	Primary NACE code	BVD ID
122	Upland Software, Inc.	5829	US272992077
123	Veeva Systems Inc.	5829	US208235463
124	Viewnext SA	6202	ESA80157746
125	Vincit Group OYJ	5829	FI21130349
126	WidePoint Corporation	6201	US522040275
127	Witbe	6190	FR430104414
128	ZIX Corporation	6311	US752216818