

# Appendix 2: Data sources and Methodology

## SSRO functions

The SSRO must keep under review the extent to which persons subject to requirements under the Act are complying with them.

The SSRO’s compliance methodology directly supports two of our statutory functions:

- the requirement under section 36(2) of the Act to keep under review the extent to which persons subject to reporting requirements are complying with them; and
- the requirement under section 39(1) of the Act to keep under review the provision of the regulatory framework established by the Act and the Regulations.

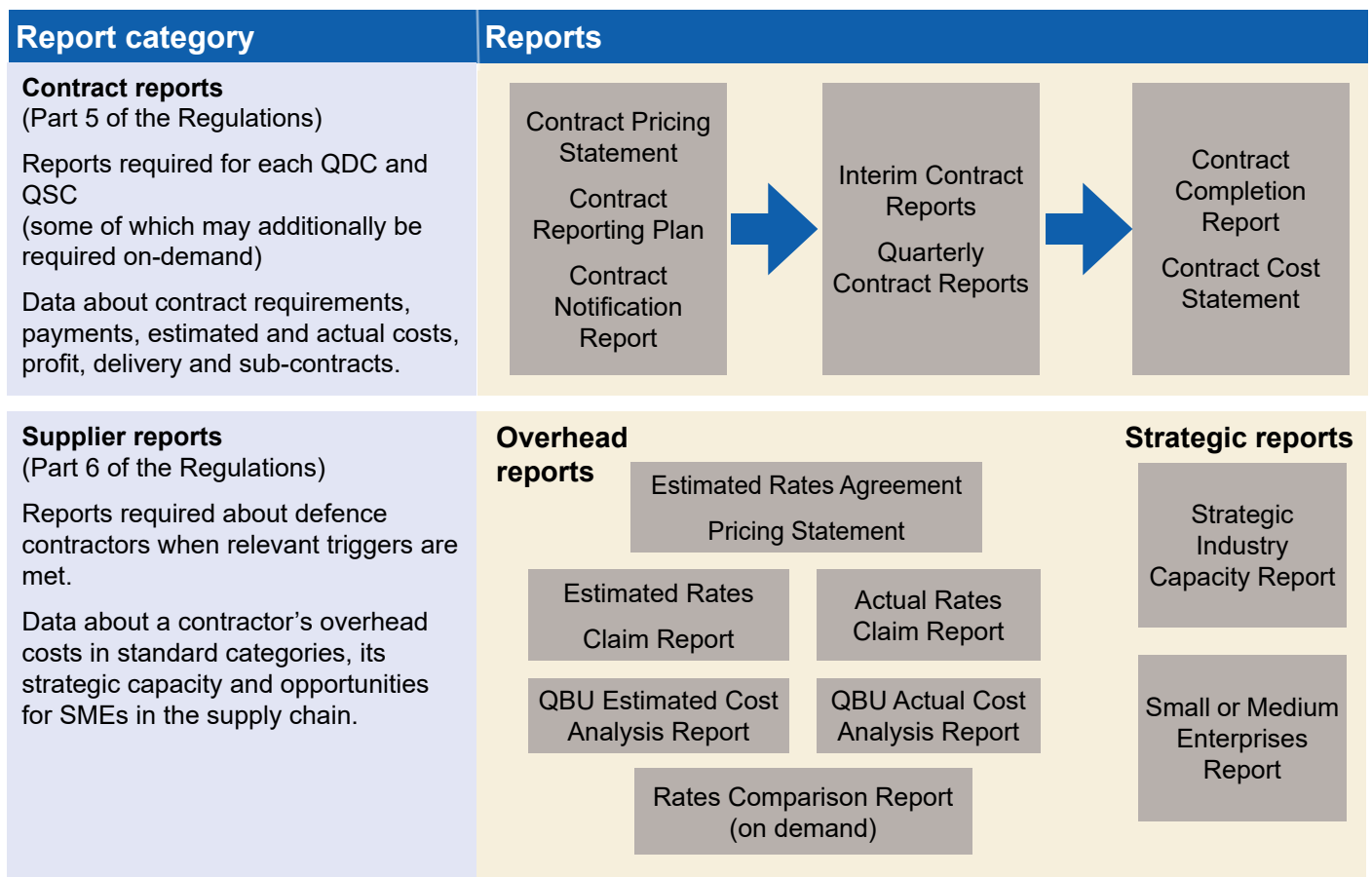
In carrying out these functions, the SSRO must aim to ensure that:

- good value for money is obtained in government expenditure on qualifying defence contracts (value for money); and
- that persons who are parties to qualifying defence contracts are paid a fair and reasonable price under those contracts (fair pricing).

## Submission requirements

Defence contractors are required to submit two types of reports, as summarised in Figure 1.

**Figure 1: reports required under the regulatory framework**



Our analysis refers to three types of contract reports, being the initial, update and completion reports:

- ‘initial reports’ being the Contract Pricing Statement (CPS), the Contract Reporting Plan (CRP) and the Contract Notification Report (CNR), known collectively as the Contract Initiation Report (CIR); and
- the ‘update reports’ being the Interim Contract Report (ICR), the Quarterly Contract Report (QCR), and any on-demand reports; and
- the ‘completion reports’ being the Contract Completion Report (CCR) and the Contract Costs Statement (CCS).

We also refer to two types of supplier report:

- ‘overheads reports’ being the Qualifying Business Unit Estimated Cost Analysis Report (QBUECAR), the Qualifying Business Unit Actual Cost Analysis Report (QBUACAR), the Estimated Rates Agreement Pricing Statement (ERAPS), the Estimated Rates Claim Report (ERCR), the Actual Rates Claim Report (ARCR) and the Rates Comparison Report (RCR) which is only triggered by a written notice from the Secretary of State; and
- ‘strategic reports’ being the Strategic Industry Capacity Report (SICR), and the Small or Medium Enterprises (SME) Report.

Overheads reports may be required for a Qualifying Business Unit (QBU) in some years and not others, depending on whether the ongoing contract condition<sup>1</sup> and QBU threshold<sup>2</sup> are met. The SSRO does not have independent access to the information required to assess whether these requirements are met for a QBU and is dependent on notifications from the MOD and the contractor. The analysis is therefore subject to some assumptions made by the SSRO about submissions that are expected when it is aware of certain conditions having been met.

The reporting requirements are set out in Parts 5 and 6 of the Regulations. The SSRO supplements those requirements with reporting guidance, which contractors must have regard to when completing the reports.

## Information included in this report

The SSRO has developed DefCARS, with input from the defence industry and MOD users, to provide an easy to use and secure means of submitting the reports. The majority of the analysis presented in this report is drawn from the data submitted into the on-line version of DefCARS. Compliance-related data was only available in DefCARS for reports submitted from 1 May 2018.

The contract data in this report is sourced from the latest of the CPS, CNR, QCR, ICR, CCR or CCS. Data related to quality and timeliness of submissions are sourced from DefCARS.

This report analyses reports submitted on or before the cut-off date of 30 June 2021. It considers:

- QDCs and QSCs entered into between 1 April 2015 and 31 March 2021 and notified to the SSRO by 30 June 2021; and
- associated contract and supplier reports due for submission by 30 April 2021.

1 The “ongoing contract condition” is met in relation to a financial year if, at any time in that year, obligations relating to the supply of goods, works or services under one or more of the qualifying defence contracts referred to in subsection (4)(a) or (b) (as the case may be) are outstanding (s25(5) of the Act). Regulation 31(2) notes that this is subject to a minimum value of qualifying defence contract for reporting requirement to be imposed, and the amount specified for the purposes of that subsection is—  
(a) for the financial years ending on 31 March 2016 and 31 March 2017, £20,000,000;  
(b) for subsequent financial years, £50,000,000.

2 The total value of what it provides for those purposes in that period is at least £10,000,000.

As of 30 June 2021, the SSRO had been notified of, and reports had been received for, 365 QDCs and QSCs that had been entered into between 1 April 2015 and 31 March 2021. The key statistics relating to contracts have been reported in the SSRO's [Annual qualifying defence contract statistics: 2020/21](#) and the detailed messages from that publication are not repeated here.

## Reporting on compliance issues

The SSRO reviews the reports submitted by contractors and seeks to understand the information provided, relying on automated validation checking in its DefCARS system. More detailed, manual investigations around validation warnings that have not been addressed by the contractor are also considered. The SSRO focuses its manual reviews on issues that can be linked to validation warnings and may base targeted or thematic reviews on issues identified from validation warnings.

Ensuring the accuracy of reported information depends on the MOD also checking reported information and taking action where appropriate. We have enabled the MOD to raise queries with contractors in DefCARS and for contractors to respond, and this information is reviewed by the SSRO as part of the implementation of its compliance methodology.

The SSRO's review process starts after a contract submission has been made and, depending on the timeliness of contractor responses to issues, can continue over a period of several months. The SSRO queries potential errors with report submissions that impact data quality, such as:

- internal inconsistencies;
- arithmetical errors; and
- matters that appear to be erroneous, for example incomplete information.

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

The compliance approach includes querying obvious errors (for example internal reporting inconsistencies) as well as raising any issues if completed reports seemed to be erroneous (for example reports containing incomplete or limited information).

We consider the extent to which persons subject to reporting requirements have complied with their obligations and what this tells us about how the regime is operating. To deliver our statutory aims and functions, we seek to achieve the following:

- good quality data from contractors, that is relevant, comparable and reliable;
- identification of issues related to meeting reporting requirements (reporting issues), to data quality and to the application of the regulatory framework, for example pricing control;
- a shared understanding with the MOD and contractors about identified issues; and
- appropriate action by the SSRO, the MOD and contractors to address issues. Action by the SSRO to address issues may include revised support to contractors, updated guidance, development of DefCARS and recommendations for legislative change.

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

As part of the [compliance and review methodology](#), the SSRO typically raises queries arising from report submissions directly with contractor. If the contractor does not respond to issues or provides a response that does not address the issues raised, the SSRO passes these matters to the MOD. Issues raised with the MOD may involve both compliance with reporting requirements and the way in which the system of pricing contracts is being applied.

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

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

## Data revisions

All historic data has been revised since the previous annual compliance report, due to a change in the compliance methodology to measure the quality of submissions, which is described below.

Data may also be revised for previous periods where report submissions which were not received by the reporting cut-off date are later received, or where suppliers have provided corrected or updated reports with new data.

Where errors are found in the analysis, or where there are significant changes to published data that might affect the utility of the analysis, the SSRO may correct these by reissuing the publication. Where this happens, the reason and impact of the revision will be given.

## Adjustments to data

All data is as reported to the SSRO. Some adjustments have been made in circumstances where there are known, and significant, data quality issues so that the analysis is not misleading. In summary, the following adjustments were made in a small number of cases:

- some report due dates were amended where the due date reported by the contractor was known to be wrong; and
- some contractors had incorrectly submitted reports into the system, or had submitted reports as new submissions instead of corrections (and vice versa).

Additionally, we have manually added to the analysis where the contractor submitted a report outside of the DefCARS system. Mostly, this was for Strategic Industrial Capacity Reports (SICRs), which cannot be submitted in DefCARS.

## Definitions

A QDC is a non-competitively procured defence contract with a value of £5 million or more. If a sub-contract of a QDC is also awarded without competition, has a value of more than £25 million and is assessed by the prime contractor, it becomes a QSC.

For analysis of contract reports, the SSRO has grouped contracting companies into their respective Global Ultimate Owner (GUO) by considering whether the GUO controls a majority (greater than 50.01 per cent) of the voting rights of the company in question. Where a company has no single entity with a controlling majority, the company itself is considered the GUO of the corporate group. One contracting company has submitted its own strategic reports separate to its ultimate parent undertaking. For the purposes of the analysis, we have counted it as its own separate GUO.

The analysis of supplier reports is done by Ultimate Parent Undertaking (UPU), rather than GUO. The legislation refers to the 'Ultimate Parent Undertaking' to be consistent with the Companies Act 2006 which defines 'parent undertaking' and 'subsidiary undertaking', however contract report submissions do not identify the Ultimate Parent Undertaking and so GUO is used instead.

## Analysis

All analysis defines the financial years as being 1 May to 30 April each year. Contractors have one month after the contract becomes a qualifying contract to submit their reports. For example, a contract entered into on 30 March 2021 will have an initial report due date of 30 April 2021 and therefore the initial report would be included in the analysis for the 2020/21 financial year. The analysis aims to be consistent with the Annual Qualifying Defence Contract Statistics 2020/21, which reports on contracts by the government financial year in which they became QDCs/QSCs.

Totals are calculated on unrounded figures, before being rounded for presentational purposes.

## Timeliness

Analysis looking at the timeliness of report submissions uses the report due date to group the analysis by the financial year. This is according to the contractor's own reporting plans, unless there are known issues with these, or they have not yet been received. In some cases, adjustments may be made to these to correct for known errors. Where reporting plans have not yet been received, the SSRO estimates the report due dates where possible, using information available when the contracts are notified to the SSRO.

## Quality

Analysis looking at the quality of report submissions uses the report submission date to group the analysis into the relevant financial year, this is different to our analysis of timeliness which is currently undertaken outside of DefCARS and uses the report due date to group the analysis by financial year. There may therefore be a variance in the numbers of submissions considered for assessing quality and timeliness for each financial year.

Queries are raised directly with contractors and if an issue arises on a CIR submission and is applicable to each of the three initial submissions, it is counted as three individual issues raised. If it is not applicable to all three initial reports, a mapping exercise has been undertaken to identify, which of the initial three reports the issue relates to. Due to the large numbers of issues raised, this could not be done on a case-by-case basis, and is instead mapped using the broad information category the issue has been assigned to. If an issue has been raised that relates to a field only required in the CPS, for example, this will only count as one issue, and only one of the three initial reports will be assessed as not meeting the statutory requirements. This is different to the methodology used in the previous Annual Compliance Report, where all issues raised on a CIR were counted as three issues. All historic figures have been restated using the new methodology.

Previously, only SSRO reviews of submissions counted towards the quality indicator. This year however, the MOD reviews of the reports are also taken into account when establishing whether a report is correct. The overall quality indicator reported in the compliance report considers the proportion of reports where no issues have been raised, for all reports reviewed by the SSRO and the MOD. However, due to the low proportion of MOD reviews seen to date, the rest of the analysis on report quality looks at any reports that have been reviewed by either the SSRO or the MOD, to increase the amount of reports available for more in-depth analysis.

When a contractor or, if the issues has been forwarded to the MOD, the MOD does not respond to an issue raised by the SSRO within 6 months from the date the report was due the issue is automatically closed by the SSRO. Reports in which issues have not been addressed, but closed after six months, have not been counted as being correct in subsequent submissions once the issues have been closed.

## **Thematic Reviews**

All analysis looking at particular themes of the reporting regime looked at contracts that became QDCs/QSCs by 31 March 2021, and where reports were received (or due to be received) by 30 June 2021, to ensure consistency with the timeliness and quality analysis.