

# SSRO

Single Source  
Regulations Office

## Recommendation factsheet

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

### The baseline profit rate (BPR) for 2022/23

The baseline profit rate (BPR) for 2022/23 is 8.31 per cent.<sup>1</sup> This year the Secretary of State determined the BPR for 2022/23 as an average of the composite underlying rates calculated by the SSRO for the three years prior to 2021 (8.50%, 8.23%, and 8.19%). The Secretary of State's determination stated that this was to remove the effects of COVID-19 completely from the calculation.

### The recommended Baseline Profit Rate

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

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

### Calculation of the baseline profit rate recommended by the SSRO - these rates should not be used for contract pricing

	2018/19	2019/20	2020/21	2021/22	2022/23
Underlying rate (unadjusted for capital servicing)	9.22%	9.85%	9.80%	9.59%	8.24%
Capital servicing adjustment	-1.28%	-1.35%	-1.57%	-1.40%	-0.89%
Underlying rate	7.94%	8.50%	8.23%	8.19%	7.35%
Baseline profit rate recommended by the SSRO: Rolling average of the underlying rate*	6.81%	7.63%	8.22%	8.31%	<b>8.07%</b>

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

\* A four-year average was used for 2022/23 and a three-year average was used pre-2022/23.

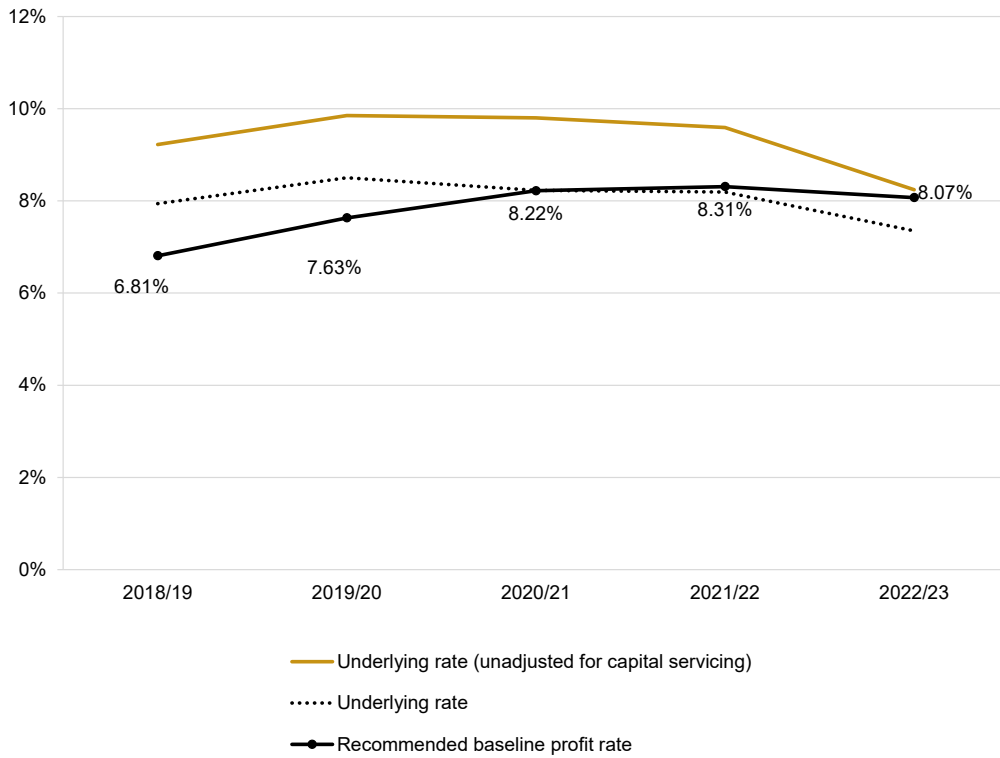
The pre-2018/19 underlying rates used for the three-year average were: 2017/18: 6.44%; 2016/17: 6.06%.

### Data sources

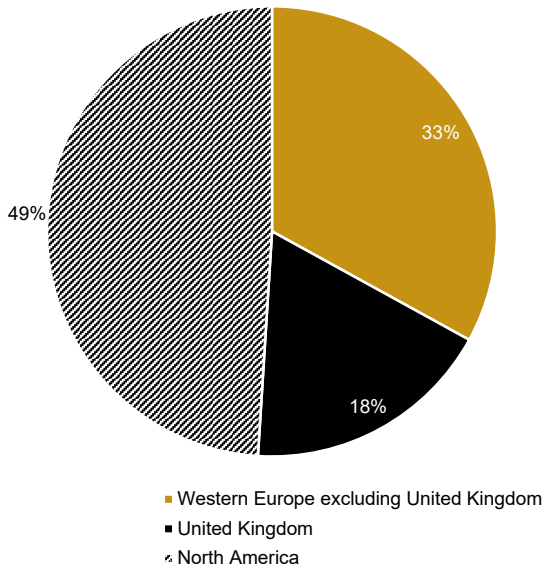
For further information on the data selection approach please see section 7 of the [Single Source baseline profit rate, capital servicing rates and funding adjustment methodology](#). A company update search of the [Orbis database](#) was carried out on 1 November 2021 on data update number 216001 using software version 216. The financial data for the calculation was extracted from Orbis at the same time.

<sup>1</sup> <https://www.thegazette.co.uk/notice/4034776>

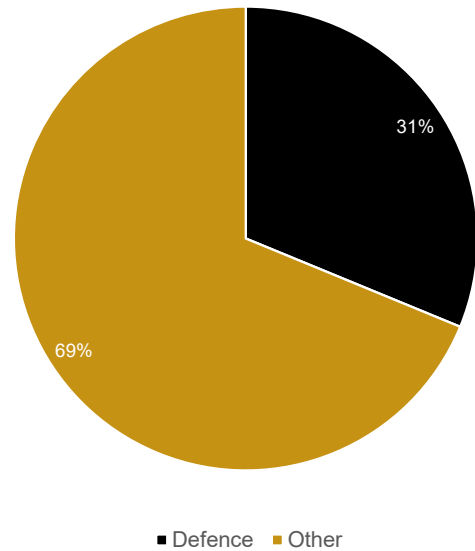
**Median capital servicing adjusted return on cost of production of SSRO comparator companies - these rates should not be used for contract pricing**



**Proportion of companies by country in the recommended BPR**



**Proportion of companies with defence keyword in the recommended BPR**



**Supplementary statistics for the recommended baseline profit rate**

Number of companies	291
of which profit making	225
Aggregate turnover	£679
Total capital employed (CE)	£224
Average company CP:CE ratio	2.71

Source: Orbis (Cash figures shown in GBP Billions)

## Names of companies in the index used to calculate the recommended BPR

A/S Vestfrost *	Calpeda S.P.A.	Genasys Inc.	Manitou BF
Aaon INC	Carrocera Castrosua SA (J)	Gencor Industries, Inc.	Manitowoc Company, Inc. (The)
AAR Corp	Castledon LTD * (J)	General Dynamics Corp	Marel HF
AB Transito	Caterpillar INC	General Electric Company *	Mariani S.R.L.
AB Volvo	Ceco Environmental Corp.	Gentex Corp	Maschinenfabrik Berthold Hermle AG
Advanced Energy Industries INC	Ceotronics AG	Gorman-Rupp Company (The)	MAX Automation SE *
Aerojet Rocketdyne Holdings, Inc.	Chart Industries INC	Graco INC	Maxar Technologies Inc. * (J)
Aerovironment, Inc.	Chemring Group PLC	Graham Corp	Mcgrath Rentcorp
Airbus SE *	CNH Industrial N.V *	Greenbrier Companies, Inc. (The)	Mercury Systems INC
Airtanker Holdings Limited (J)	Cognex Corp	Gulf Island Fabrication INC *	Mikron Holding AG *
Airtanker Services Limited * (J)	Coherent INC *	H&E Equipment Services, Inc.	Miller Industries INC
Alamo Group INC	Cohort PLC	Havyard Group ASA	MKS Instruments INC
Alimak Group AB	Cohu INC	Heico Corp	Modine Manufacturing CO *
Allied Motion Technologies, Inc.	Colosio S.R.L. (J)	Heidelberger Druckmaschinen AG	Moog INC
Allison Transmission Holdings, Inc.	Columbus Mckinnon Corp	Heroux-Devtek INC	Morgan Advanced Materials PLC
Alstom	Comerio Ercole S.P.A.	Hidden Instruments Limited (J)	Motorola Solutions, Inc.
Altra Industrial Motion Corp.	Comtech Telecommunications Corp	Honeywell International INC	Mpac Group PLC
American Axle & Manufacturing Holdings, Inc. *	Construcciones Y Auxiliar de Ferrocarriles, S.A.	Huntington Ingalls Industries, Inc.	MS International PLC *
Ametek INC	Continental AG *	IDEX Corp	MTU Aero Engines AG
Amtech Systems INC *	Cormach S.R.L. *	li-Vi INC	Muehlhan AG
Applus Services, S.A. *	Cowles Holdings Limited	Ilmor Engineering Limited * (J)	MULTIVAC Sepp Haggenmueller SE & Co. KG (J)
Aptiv PLC	CTA International SAS	Imer International SPA	Natural GAS Services Group, Inc. *
Archrock, Inc. *	Cummins Inc.	Inficon Holding AG	NC Engineering (Hamiltonsbawn) Limited
Ashtead Group PLC	Curtiss Wright Corp	Innovative Solutions & Support INC	Nicolas Correa S.A.
Astec Industries INC	Cuypers Vorkliften (J)	Interroll Holding AG	Nordson Corp
Astronova, Inc.	Cyberoptics Corp	Intevac INC	Northrop Grumman Corporation
Atlas AIR Worldwide Holdings, Inc.	Dana Incorporated	Jacobs Engineering Group INC	NOV INC *
Atlas Copco AB	Data I/O Corp *	John Bean Technologies Corp	Novanta INC
ATS Automation Tooling Systems INC	Dawsongroup PLC	John Nixon Limited (J)	Nuova Idropress - Societa' PER Azioni IN Forma Abbreviata NIP S.P.A.
Autoliv, Inc.	Deere & CO	Judges Scientific PLC	Oceaneering International INC *
Avant Tecno Oy	DEL BO Impianti S.R.L.	Kadant INC	Officina Bodedi SRL (J)
Axcelis Technologies INC	Deutz AG *	Kaman Corp *	Onto Innovation Inc.
Axon Enterprise, Inc. *	Douglas Dynamics, Inc. *	Katsa Oy *	Oshkosh Corporation
Azkoyen SA	Dril-Quip INC *	Kbr, Inc.	Oxford Instruments PLC
B.M.B. S.P.A. (J)	Ducommun INC	Kesla OYJ	P P S Commercials Limited
Babcock & Wilcox Enterprises, Inc.	Duerr AG *	Keysight Technologies, Inc.	Paccar INC
Babcock International Group PLC *	Electromecanica Naval E Industrial SA	KIS Partners AS	Park Aerospace Corp.
BAE Systems PLC	Energy Recovery, Inc.	KMG Systems Limited	Paul Mueller Company *
Bailey Trailers Limited (J)	Enerpac Tool Group Corp	Koenig UND Bauer AG *	Pietro Fiorentini S.P.A.
Barco NV	Espey Manufacturing & Electronics Corp.	Komax Holding AG	Ponsse OYJ
Barnes Group INC	Europress Group Oy	Konecranes OYJ	Portsmouth Aviation Holdings Limited
Bevan Group LTD	EVS Broadcast Equipment SA	Kratos Defense & Security Solutions, Inc.	Powell Industries INC
Bittium OYJ	Fedegari Autoclavi - S.P.A.	L3harris Technologies, Inc.	Prima Industrie SPA *
BK Technologies INC	Federal Signal Corp	LAM Research Corp	Qinetiq Group PLC
Boeing Company (The) *	Filtronc PLC *	Leidos Holdings, Inc.	Raute OYJ *
Broadwind, Inc. *	Finning International INC	Leonardo S.P.A.	Raytheon Technologies Corporation *
Bruker Corporation	Flowserve Corp	Lillbacka Powerco Oy *	Renew Holdings PLC
Brunvoll Holding AS	Fratelli Mazzocchia S.P.A. *	Linamar Corporation	Renishaw PLC
Burkhalter Holding AG	Freightcar America, Inc. *	Lockheed Martin Corp	Rheinmetall AG
BWX Technologies Inc.	Frigoveneta S.P.A.	Logset Oy	Ricardo PLC *
Caci International INC	G.H.B. (Holding) Limited	Macpresse Europa S.R.L.	Rockwell Automation, Inc.
CAE INC	Gama Aviation PLC *	Maclaggart Scott (Holdings) Limited	Rohde & Schwarz GmbH & Co. Kommanditgesellschaft
CAI International INC	Gatx Corp	Magna International INC	
		Manitex International, Inc. *	

Roper Technologies, Inc.	Thyssenkrupp AG *
RWG (Repair & Overhauls) Limited	Tomra Systems ASA
Ryder System INC *	Total Aircraft Product Support (Holdings) Limited * (J)
Saab AB	Trane Technologies PLC
Saalasti Oy	Trinity Industries INC *
Saltire Energy Limited	Triumph Group INC *
Samp S.P.A.	Tronrud Engineering AS
Sandvik AB	Twin Disc INC *
Schlatter Industries AG *	Ultra Electronics Holdings PLC
Schmitt - Elevadores, LDA	United Rentals INC
Science Applications International Corp	Vaisala OYJ
SCM Group S.P.A.	VEO Oy
Servotronics INC * (J)	VMS (Holdings) Limited
Siemens AG	VSE Corp
Skako A/S	Wabash National Corp *
Smith & Wesson Brands, Inc.	Wacker Neuson SE
Smith Brothers (Leicester) Limited	Wartsila OYJ
Smiths Group PLC	Washtec AG
Snec-Lavalin Group INC *	Weber Maschinenbau GmbH Breidenbach (J)
Speedy Hire PLC	Westinghouse AIR Brake Technologies Corp
Spirit Aerosystems Holdings, Inc. *	Whale Tankers Limited (J)
SPX Corp	William Cook Holdings Limited
SPX Flow, Inc.	Williams Shipping Holdings Limited
Star Refrigeration Limited	Willis Lease Finance Corp
Steerprop Oy *	Willis Mitsui & CO Engine Support Limited * (J)
Streon Limited (J)	Wilton Universal Group Limited *
Sturm Ruger & CO INC	Wireless Telecom Group INC *
Sulzer AG	Witt & SON UK Holdings Limited *
Sureserve Group PLC	Wood Group (John) PLC *
SVI S.P.A.	Woodward, Inc.
Swede Ship Marine Aktiebolag *	Worthington Industries INC
Systemair AB	Xylem Inc.
Talgo,S.A. (J)	Zambello Riduttori 2 - S.R.L.
Taylor Devices INC	Zebra Technologies Corp
Teagle Holdings Limited	
Team INC *	
Teledyne Technologies Incorporated	
Tennant CO	
Teradyne INC	
Terex Corp	
Tesmec SPA *	
Textron INC	
Thales	
THE Shyft Group, Inc.	
Thwaites Limited	

\* Indicates that the company is a loss-maker in the year.

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

## The capital servicing rates for 2022/23

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

**The fixed capital servicing rate, positive working capital servicing rate and negative working capital servicing rates for 2022/23 are respectively 3.27%, 1.33% and 0.65%.<sup>1</sup> This year the Secretary of State determined the capital servicing rates for 2022/23 using the figures calculated by the SSRO for 2021/22.<sup>2</sup> The Secretary of State's determination stated that this was to remove the effects of COVID-19 completely from the calculation.**

## Capital servicing rates recommended by the SSRO

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

## The capital servicing rates recommended by the SSRO – these rates should not be used for contract pricing

	2018/19	2019/20	2020/21	2021/22	2022/23
Fixed capital servicing rate	4.38%	3.98%	3.66%	3.27%	2.87%
Positive working capital servicing rate	1.21%	1.18%	1.22%	1.33%	1.09%
Negative working capital servicing rate	0.53%	0.53%	0.61%	0.65%	0.51%

## Data sources

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

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

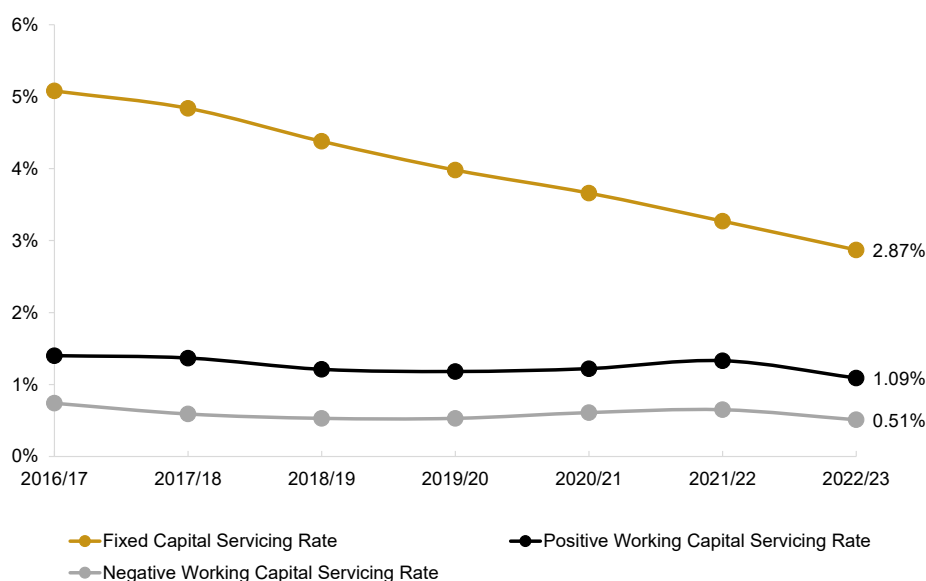
Sources: Bloomberg or Bank of England

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

1 <https://www.thegazette.co.uk/notice/4034776>

2 <https://www.gov.uk/government/publications/2021-contract-profit-rate>

## Trends in capital servicing rates recommended by the SSRO



## The SSRO funding adjustment

The SSRO funding adjustment is Step 4 of the six-step process for determining the contract profit rate for a qualifying defence contract. The SSRO will be funded equally by the Secretary of State and industry. Industry funding is intended to be equitably shared across contractors based upon the value of their QDCs. The Secretary of State had determined the SSRO Funding Adjustment for 2022/23 at the rate recommended by the SSRO, as set out below.

## Calculation of SSRO funding adjustment

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

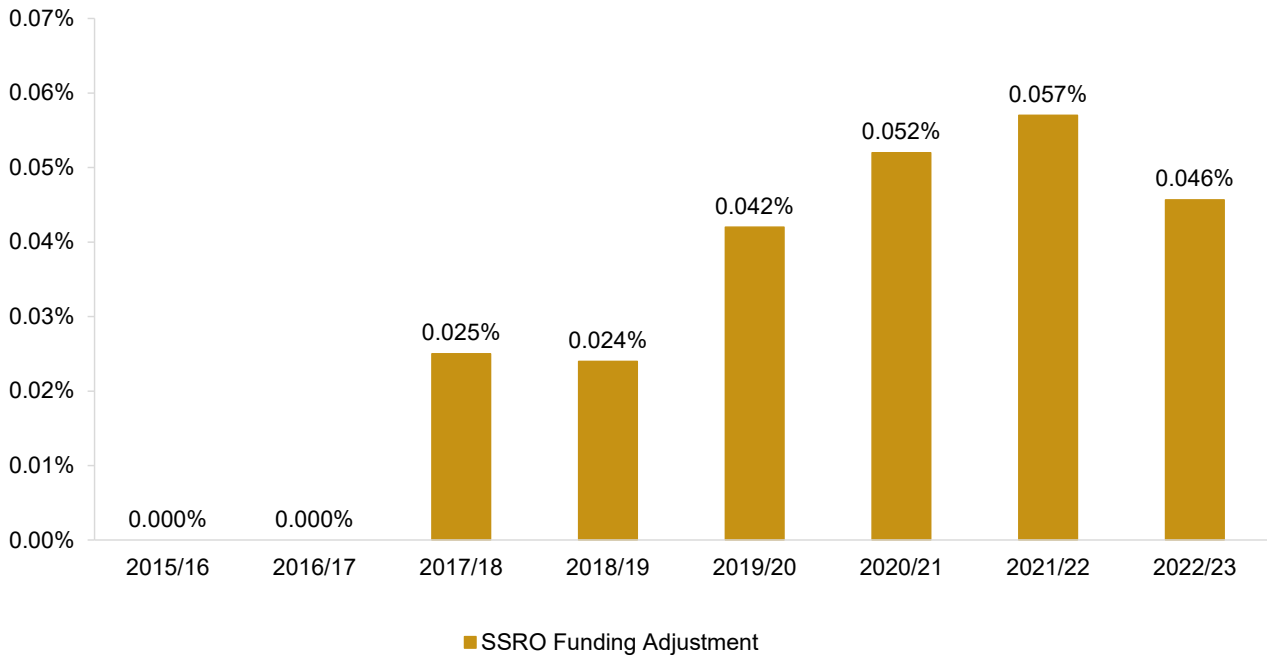
Financial year	2018/19	2019/20	2020/21
SSRO running costs (£ thousand)	6,148	6,336	6,412
Cost of additional tasks requested by SofS (£ thousand)	-	-	-
Total Allowable Costs of QDCs and QSCs (£ thousand)	5,866,000	9,774,000	5,048,000

Recommendation	2022/23
SSRO running costs (£ thousand) 3-year average	a 6,299
Cost of additional tasks requested by SofS (£ thousand) – 3-year average	b -
Total Allowable Costs of QDCs and QSCs (£ thousand) – 3-year average	c 6,896,000
SSRO funding adjustment = ((a-b)/c) × 50%	<b>0.046%</b>

## Data sources:

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

### SSRO funding adjustment history



### Government owned contractor rate

The Government owned contractor rate is a baseline profit rate that may be applied to qualifying contracts in place of the baseline profit rate set out on page 1. The Secretary of State had determined the Government owned contractor rate for 2022/23 at the rate recommended by the SSRO, as set out below.

The government owned contractor rate must only apply to qualifying defence contracts where:

- a) the contract is between Secretary of State and a company incorporated under the Companies Act that is wholly owned by the UK Government; and
- b) both parties to the contract agree that it should apply.

### Calculation of Government owned contractor rate

The government owned contractor rate is set at a level that is opposite to the application of the SSRO funding adjustment. This approach delivers a contract profit rate of zero if steps 2, 5 and 6 are determined to be zero.

	2018/19	2019/20	2020/21	2021/22	2022/23
Government owned contractor rate				0.057%*	<b>0.046%</b>

Note: The Government-owned contractor rate was first introduced for 2021/22.

\* The SSRO did not recommend a government owned contractor rate for 2021/22 and the rate was assessed by the Secretary of State. The reason for doing so is set out in the London Gazette: <https://www.thegazette.co.uk/notice/3760612>