

## Supplementary guidance for the completion of an On Demand Contract Pricing Statement – example 1 (Regulation 14, paragraph 4 of the Schedule)

1. The following reporting guidance applies where a contractor is submitting an On-Demand Contract Pricing Statement (OD CPS) following a re-determination of the contract price in line with regulation 14 of the Single Source Contract Regulations. It provides an illustrative example to supplement the guidance on completion of the OD CPS in paragraphs 9.12 to 9.19 of the SSRO's contract reporting guidance. The guidance is not intended to indicate to contractors how contracts should be priced.
2. The [Schedule](#) to the Regulations sets out the approach to take in re-determining the contract price when there is a pricing amendment. Where there is a single pricing amendment, the Schedule specifies how the amended price should be determined by reference to the nature of the amendment. Several scenarios are specified at paragraphs 3 to 9 of the Schedule and, where none of those apply, the whole price is to be re-determined in accordance with paragraph 10. Where there are multiple amendments, they are to be treated separately and dealt with in turn in accordance with paragraphs 11 and 12.
3. The application of the Schedule to the Regulations to a pricing amendment may result in different pricing segments in the contract price, as identified in paragraph 9.14 of the contract reporting guidance. Paragraph 9.15 of the guidance identifies that a pricing segment may be:
  - the original contract; or
  - an un-amended element of the original contract following a regulation 14 amendment to one or more other elements; or
  - an individual regulation 14 pricing amendment or a portion of an amendment which has a distinct contract profit rate; or
  - a grouping of pricing amendments, or grouping of portions of pricing amendments, which have contract profit rates of the same value and the same values attributed to each of the six steps.
4. The SSRO has developed an Amendments Spreadsheet (the spreadsheet) to assist contractors in reporting how the contract price has been re-determined in an OD CPS. The example below is an illustration of the application of the reporting guidance and use of the spreadsheet for a specific scenario dealt with in the Schedule to the Regulations.

## Illustrative example 1: Amendment of the regulated pricing method used for a QDC (Paragraph 4 of the Schedule to the Regulations)

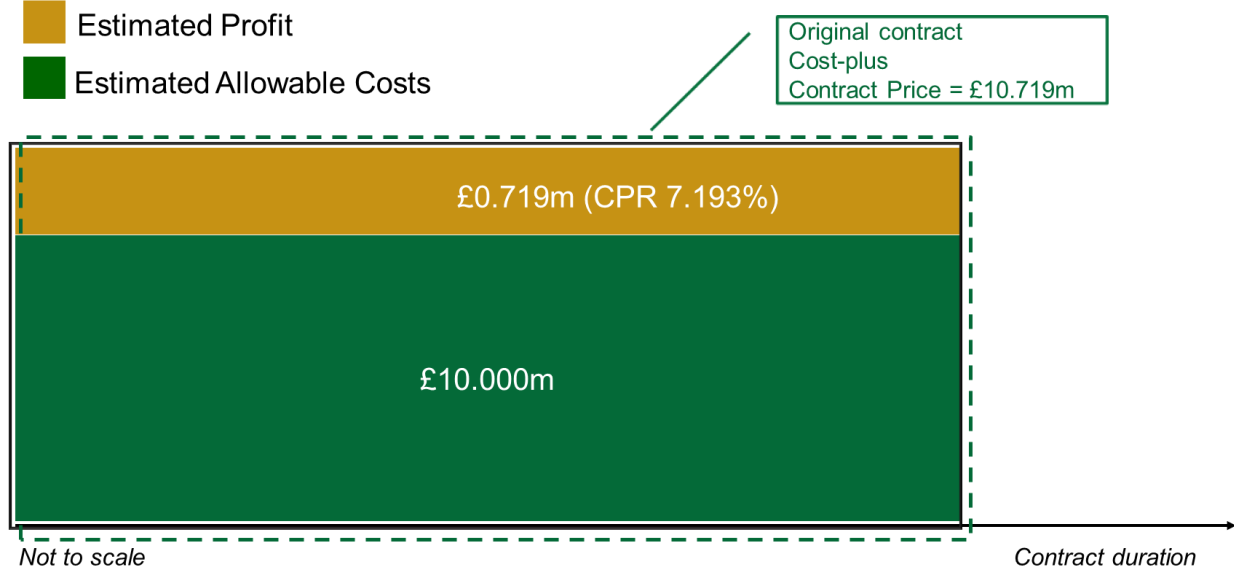
### The contract scenario, as originally agreed

5. A ten year qualifying contract was entered into on 1 January 2019, using a cost-plus pricing method as defined in regulation 10(6). In this case the allowable costs were estimated at £10.000 million at the initial time of agreement. The contract profit rate of this contract was agreed at 7.193%. Figure 1 below represents the reported contract price of £10.719 million at the initial time of agreement.

**Figure 1 – Representation of the contract price at the initial time of agreement**

Original Contract

- Estimated Profit
- Estimated Allowable Costs



### Reporting of the illustrative example's profit and allowable cost in DefCARS at the initial time of agreement

6. The contractor was required to provide the initial contract reports within a month of the date the contract was entered into on 1 January 2019. The initial reports included the six-step profit rate calculation, contract price, the pricing methods used and the contract profit rate for the contract. DefCARS enables the three initial reports (Contract Pricing Statement, Contract Reporting Plan, and Contract Notification Report) to be submitted through a single, combined report entry which is described in DefCARS as the Contract Initiation Report (CIR). The following Figures 2 and 3 show how the price information would appear in DefCARS in the CIR:

- Profit page of the CIR (see Figure 2)
- Pricing Method Breakdown of the CIR (see Figure 3)

**Figure 2 – Allowable costs, profit and contract profit rate reported on the Profit page in the CIR**

## Contract Profit Rate

	Value
Statutory Guidance on Allowable Costs in force at the time of agreement	VERSION 3.0 - 1 APRIL 2018 <input type="button" value="v"/>
Statutory Guidance on the Contract Profit Rate in force at the time of agreement	VERSION 4.0 - 15 MARCH 2018 <input type="button" value="v"/>
Total Allowable Costs (Including any Risk Contingency Element)	10.000
Total Risk Contingency included in Allowable Costs	0.000

Ref	Description	Value
Step 1	Baseline Profit Rate (BPR) %	2018/19 BPR 6.81%
Step 2	Cost Risk Adjustment %	-1.703
Step 3	Profit On Cost Once (POCO) adjustment %	0.000
Step 4	Single Source Regulations Office - funding adjustment %	-0.024
Step 5	Agreed Incentive Adjustment %	0.000
<b>Capital Servicing Adjustment Calculator</b>		
Step 6	Capital Servicing Adjustment %	2.110
	<b>CALCULATION OF THE SIX PROFIT RATE STEPS</b>	<b>7.193</b>
CPR	<b>CONTRACT PROFIT RATE</b>	<b>7.193</b>
	<b>CONTRACT PROFIT RATE - Expressed as amount</b>	<b>0.7193</b>
Price	<b>The total Contract Price, including maximum amount that can be earned via Incentive Adjustment</b>	<b>10.7193</b>

**Figure 3 – Price by pricing method reported on the Pricing Method Breakdown page in the CIR**

## Pricing Method Breakdown

Price Breakdown - Millions to 3 d.p.	GBP
Firm Pricing	<input type="text"/>
Fixed Pricing	<input type="text"/>
Cost Plus Pricing	10.719
Estimate Based Fee Pricing	<input type="text"/>
Volume Driven Pricing	<input type="text"/>
Target Pricing	<input type="text"/>
Total	10.719
Comments on Pricing method breakdown	<div style="background-color: #f0f0f0; height: 80px; width: 100%;"></div>

### The contractual pricing amendment scenario

7. A contract pricing amendment, known as reference CA001 between the MOD and the contractor, was entered into on 1 January 2020, changing the regulated pricing method from cost-plus to firm. The change is applied to the totality of the unperformed part of the contract. This is a re-determination of the contract price as set out in paragraph 4 of the Schedule to the Regulations. No change of requirement was agreed for the contract, however the price of the performed part of the contract, prior to the amendment has crystallised as this contract was priced using the cost-plus pricing method, and the price of the unperformed part of the contract has changed as a result of the amendment.

### Regulation 14 – Pricing of the amendment

8. Paragraph 4 of the Schedule to the Regulations specifies how the contract price should be determined in circumstances where the regulated pricing method used for a qualifying defence contract is changed. The approach specified in paragraph 4 is summarised in Table 1.

**Table 1 – Regulation 14 (paragraph 4 of the Schedule) calculation**

Price payable in respect of performance under the contract on or before the time of agreement.
+
Price payable in respect of the amendment
=
Price payable under the amended contract

9. The price payable in respect of performance under the contract on or before the time of agreement totals £1.042 million, based on the price which has crystallised.
10. The price payable in respect of the amendment is estimated and reported at the value of £8.917 million, derived from:
- The estimated allowable costs for the unperformed part of the contract, agreed at £8.000 million (including risk contingency of £0.500 million); and
  - The contract profit rate in respect of the amendment, for the unperformed part of the contract, has been agreed at 11.461% and calculated as set out in Table 2 below.

**Table 2 – Calculation of the contract profit rate in respect of the amendment**

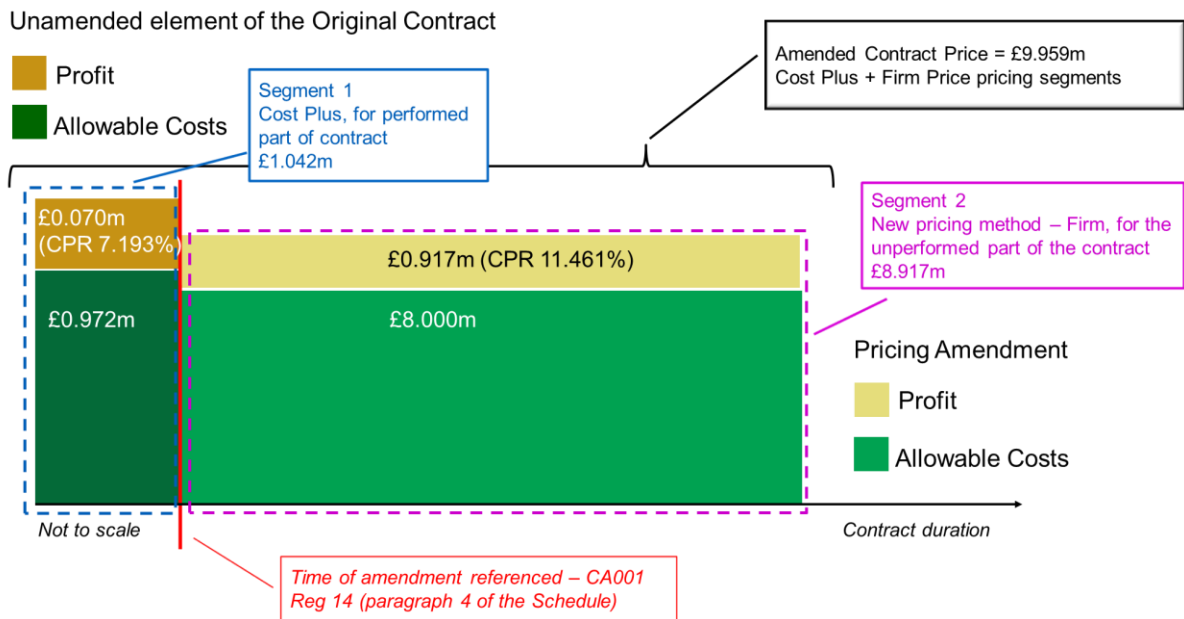
Step 1 – Baseline profit rate	7.63%
Step 2 – Cost risk adjustment	0.763%
Step 3 – Profit on cost once adjustment	0.000%
Step 4 – SSRO funding adjustment	-0.042%
Step 5 – Incentive adjustment	1.000%
Step 6 – Capital servicing adjustment	2.110%
<b>Contract profit rate</b>	<b>11.461%</b>

11. Therefore, the price payable under the amended contract at the date of 1 January 2020 is reported as £9.959 million.

**Segmented representation of the new contract price, following the amendment**

12. In reporting the change of contract price payable from £10.719 million to £9.959 million, following the pricing amendment (reference CA001), the details of the pricing information of two pricing segments can be provided. This is illustrated in Figure 4 below, and the pricing details are shown in the spreadsheet at Figure 5.

**Figure 4 – Representation of the pricing segments of the new contract price following the amendment**



**Reporting of the profit and allowable costs in the OD CPS, following the amendment**

13. The pricing amendment CA001 is considered by the MOD to have a material effect on the pricing of the contract and, as a result, the MOD is issuing an OD CPS request to the contractor. Upon receipt of this request, the contractor makes the OD CPS submission which includes:
- Amendment Spreadsheet completed and attached to the Contract Profit Page of the OD CPS (see Figure 5);
  - Contract Profit page of the OD CPS (see Figure 6); and
  - Pricing Methods Breakdown of the OD CPS (see Figure 7).

## The Amendment Spreadsheet

14. Figure 5 shows how the spreadsheet would be completed in a paragraph 4 of the Schedule scenario, for the amendment explained in paragraph 7 of this guidance.

**Figure 5 - Spreadsheet completion for the Regulation 14 (paragraph 4 of the Schedule) example (tab 2 - Template for Input)**

	A	B	C	D	E	F	G	H	I
1	Cells where input is required								
2	Cells where no input required								
3	Calculated cells								
4			Overall Contract	Pricing Segments of the overall contract (post-amendment)			Information of the pricing amendment that led to the OD CPS		
5		MOD Amendment Reference (free text)		CA001			CA001	CA001	
6		Date of agreement (free text)		01/01/2019	01/01/2020		01/01/2020	01/01/2020	
7		Segment reference number (free text)	Overall Contract	Segment 1	Segment 2		Segment 1	Segment 2	
8		Description (free text)		Unamended element of the Original Contract, performed up to 31 Dec 2019	Unperformed part of the contract, changed to Firm pricing method by CA001		Removal of the costs plus portion of the estimated price for the unperformed part of the contract	Estimated firm price for the unperformed part of the contract	
9		Type of Pricing amendment (paragraph of Regulation 14 or /non-Regulation 14) (drop down menu)					Reg 14 – 4(1) Change to the Pricing Method of the whole contract	Reg 14 – 4(1) Change to the Pricing Method of the whole contract	
10		Allowable Costs including Risk Contingency Element (£m, 3dp)	£ 8.972	£ 0.972	£ 8.000	£ -	£ 9.028	£ 8.000	£ -
11	Price Breakdown	Allowable Costs excluding Risk Contingency (£m, 3dp)	£ 8.472	£ 0.972	£ 7.500		£ 9.028	£ 7.500	
12		Risk Contingency Element (£m, 3dp)	£ 0.500	£ -	£ 0.500		£ -	£ 0.500	
13		Profit (£m, 3dp)	£ 0.987	£ 0.070	£ 0.917		£ 0.649	£ 0.917	
14		Contract Price (£m, 3dp)	£ 9.959	£ 1.042	£ 8.917	£ -	£ 9.677	£ 8.917	£ -
15	Profit rate	Step 1 - Baseline Profit Rate (% 2dp)		6.81%	7.63%		6.81%	7.63%	
16		Step 2 - Cost Risk Adjustment (% 3dp)		-1.703%	0.763%		-1.703%	0.763%	
17		Step 3 - POCO Adjustment (% 3dp)		0.000%	0.000%		0.000%	0.000%	
18		Step 4 - SSRO Funding Adjustment (% 3dp)		-0.024%	-0.042%		-0.024%	-0.042%	
19		Step 5 - Incentive Adjustment (% 3dp)		0.000%	1.000%		0.000%	1.000%	
20		Step 6 - Capital Servicing Adjustment (% 3dp)		2.110%	2.110%		2.110%	2.110%	
21		Contract Profit Rate (% 3dp)	10.999%	7.193%	11.461%		7.193%	11.461%	
22	Pricing Method	Firm Pricing Method (£m, 3dp)	£ 8.917		£ 8.917			£ 8.917	
23		Fixed Pricing Method (£m, 3dp)							
24		Cost-Plus Pricing Method (£m, 3dp)	£ 1.042	£ 1.042			£ 9.677		
25		Estimate-Based Fee Pricing Method (£m, 3dp)							
26		Volume-Driven Pricing Method (£m, 3dp)							
27		Target Pricing Method (£m, 3dp)							



## **Explanation of how the template has been completed (tab 2 - Template for Input)**

15. The explanation of how the template in Example 1 has been completed, in line with Table 28 of the SSRO's contract reporting guidance, is:
- Column C – this column sets out the re-determined contract price and the overall contract profit rate. The re-determined contract price is £9.959 million, being the addition of pricing segment 1 (at £1.042 million) to pricing segment 2 (at £8.917 million). The overall contract profit rate is 10.999%, as a cost weighted average of the contract profit rates of the pricing segments 1 and 2, reported in Columns D and E.
  - Column D – this column sets out the allowable costs and profit which were priced using the cost-plus pricing method and were part of the contract which has been performed prior to the latest time of agreement (1 January 2019 – 31 December 2019). The latest time of agreement is amendment CA001 which occurred on 1 January 2020. This element of the contract price is within pricing segment 1.
  - Column E – this column sets out the allowable costs and profit which have been amended by CA001 for the unperformed part of the contract and are priced using the firm pricing method. This part of the contract price has a different pricing method and contract profit rate from pricing segment 1, and is reported as pricing segment 2.
  - Column F – this column is empty in this example as the contract is reported in two pricing segments only.
  - Column G – this column shows the removal of the remaining contract price which used the cost-plus pricing method for the unperformed part of the contract, from 01 January 2020 onwards.
  - Column H – this column shows the application of the firm pricing method to the unperformed part of the contract. This has resulted in the creation of pricing segment 2, also in this case reported in Column E, as it has a distinct profit rate (11.461%). Columns G and H report the pricing amendment CA001.
  - Column I – this column is empty in this example as the effect of the amendment CA001 could be reported in two steps.
  - The contractor has shown that paragraph 4(1) of the Schedule applies by selecting this option from the drop-down menu.

### **The Profit page of the OD CPS**

16. The contractor will amend the Profit page of the OD CPS to input zero against each of the six steps in line with paragraph 9.12 of the contract reporting guidance. The contractor should insert the contract profit rate for the amended contract, which should be consistent with that calculated in Column C of the Amendments Spreadsheet. Figure 6 shows how the Profit page would be completed by the contractor in this scenario.

**Figure 6 - Allowable costs, profit and contract profit rate reported on the Profit page in the OD CPS**

Comments, Issues & Supporting Information:  0  0  1

## Contract Profit Rate

	Value
Statutory Guidance on Allowable Costs in force at the time of agreement	VERSION 4.0 1 APRIL 2019 <input type="button" value="v"/>
Statutory Guidance on the Contract Profit Rate in force at the time of agreement	VERSION 5.0 1 APRIL 2019 <input type="button" value="v"/>
Total Allowable Costs (Including any Risk Contingency Element)	8.972
Total Risk Contingency included in Allowable Costs	0.500

Ref	Description	Value
Step 1	Baseline Profit Rate (BPR) %	Other (Please Specify) % 0.000
Step 2	Cost Risk Adjustment %	0.000
Step 3	Profit On Cost Once (POCO) adjustment %	0.000
Step 4	Single Source Regulations Office - funding adjustment %	0.000
Step 5	Agreed Incentive Adjustment %	0.000
<a href="#">Capital Servicing Adjustment Calculator</a>		
Step 6	Capital Servicing Adjustment %	% 0.000
<b>CALCULATION OF THE SIX PROFIT RATE STEPS</b>		% 0
CPR	<b>CONTRACT PROFIT RATE</b>	% 10.999
<b>CONTRACT PROFIT RATE - Expressed as amount</b>		£m 0.986830
Price	<b>The total Contract Price, including maximum amount that can be earned via Incentive Adjustment</b>	£m 9.95883

### The Pricing Method Breakdown page of the OD CPS

17. The contractor will amend the Pricing Method Breakdown page to show the change in the pricing methods used in the amended contract. Figure 7 shows how the Pricing Method Breakdown page would be completed by the contractor in this scenario.

**Figure 7 - Price by pricing method reported on the Pricing Method Breakdown page in the OD CPS**

## Pricing Method Breakdown

Price Breakdown - Millions to 3 d.p.	GBP
Firm Pricing	<input type="text" value="8.917"/>
Fixed Pricing	<input type="text"/>
Cost Plus Pricing	<input type="text" value="1.042"/>
Estimate Based Fee Pricing	<input type="text"/>
Volume Driven Pricing	<input type="text"/>
Target Pricing	<input type="text"/>
Total	<input type="text" value="9.959"/>
Comments on Pricing method breakdown	<input type="text"/>