

## **Supplementary guidance for the completion of an On Demand Contract Pricing Statement – example 2 (Regulation 14, paragraph 6 of the Schedule)**

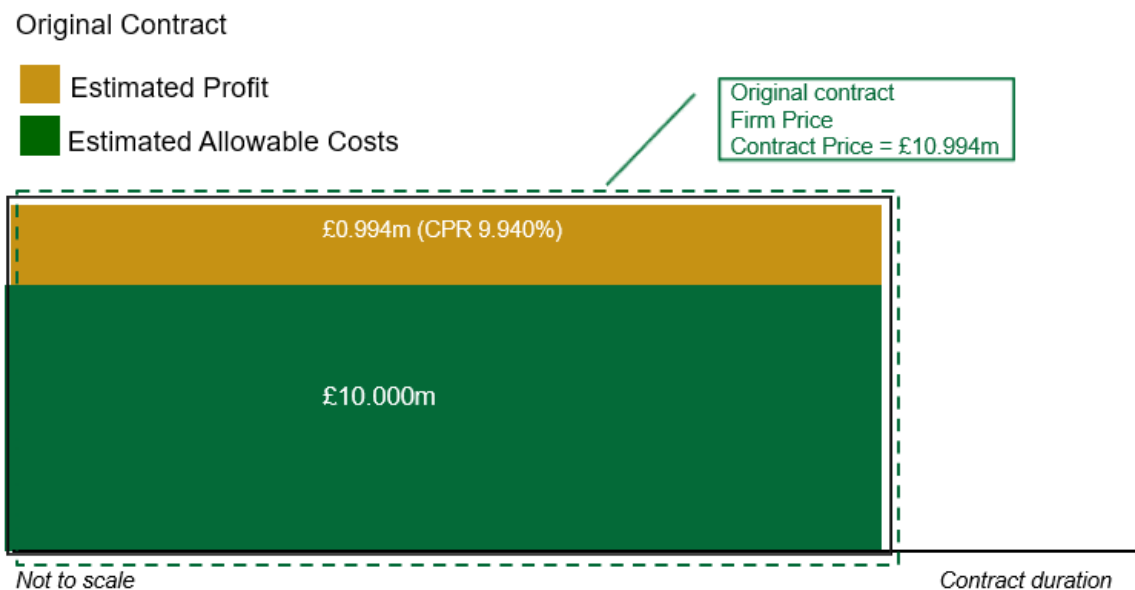
1. The following reporting guidance applies where a contractor is submitting an On-Demand Contract Pricing Statement (OD CPS) following a re-determination of the contract price in line with regulation 14 of the Single Source Contract Regulations. It provides an illustrative example to supplement the 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 set 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 paragraph 3 to 9 of the Schedule and, where none of those apply, the whole price is to be redetermined 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 2: Amendment affecting a defined element of allowable costs (Paragraph 6 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 firm pricing method as defined in regulation 10(4). 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 9.940%. Figure 1 below represents the reported contract price of £10.994 million at the initial time of agreement.

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



### Reporting of the illustrative example's profit and allowable costs 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	0.500

Ref	Description	Value
Step 1	Baseline Profit Rate (BPR) %	2018/19 BPR 6.81%

Step 2	Cost Risk Adjustment %	0.654
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Step 3	Profit On Cost Once (POCO) adjustment %	0.000
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Step 4	Single Source Regulations Office - funding adjustment %	-0.024
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Step 5	Agreed Incentive Adjustment %	1.000
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#### Capital Servicing Adjustment Calculator

Step 6	Capital Servicing Adjustment %	%	1.500
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CALCULATION OF THE SIX PROFIT RATE STEPS		%	9.94
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CPR	CONTRACT PROFIT RATE	%	9.94
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CONTRACT PROFIT RATE - Expressed as amount		£m	0.994
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Price	The total Contract Price, including maximum amount that can be earned via Incentive Adjustment	£m	10.994
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**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	10.994
Fixed Pricing	
Cost Plus Pricing	
Estimate Based Fee Pricing	
Volume Driven Pricing	
Target Pricing	
<b>Total</b>	<b>10.994</b>
Comments on Pricing method breakdown	

### 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, updating a defined element of allowable costs, which results in amended estimated allowable costs. This could be a scenario where a set of rates are being updated. This is a re-determination of the contract price as set out in paragraph 6 of the Schedule to the Regulations. The remainder of the allowable costs remain unchanged as a result of the amendment.

### Regulation 14 – Pricing of the amendment

8. Paragraph 6 of the Schedule to the Regulations specifies how the contract price should be determined in circumstances where a pricing amendment will change a defined element of allowable costs under the contract or a defined component of the contract. The approach specified in paragraph 6 is summarised in Table 1.

**Table 1 – Regulation 14 (paragraph 6 of the Schedule) calculation**

The original contract price less the adjustment amount
+
Price payable in respect of the amendment
=
Price payable under the amended contract

9. The original contract price is £10.994 million. The adjustment amount by which the original contract price is reduced is £2.199 million, derived from:
- The defined element of allowable costs that is updated in the amendment, which was estimated at £2.000 million in the original estimated allowable costs; and
  - The portion of profit that was associated with the defined element of allowable costs that is updated, worth £0.199 million. This is calculated using the original contract profit rate of 9.940% applied to the £2.000 million worth of allowable costs.

The original contract price less the adjustment amount is therefore £8.795 million.

10. The price payable in respect of the amendment is £2.439 million, derived from:
- The amended estimated cost of the defined element , agreed at £2.200 million; and
  - The contract profit rate agreed at the time of the amendment for the pricing of the defined element, calculated at 10.851% as shown in Table 2.

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

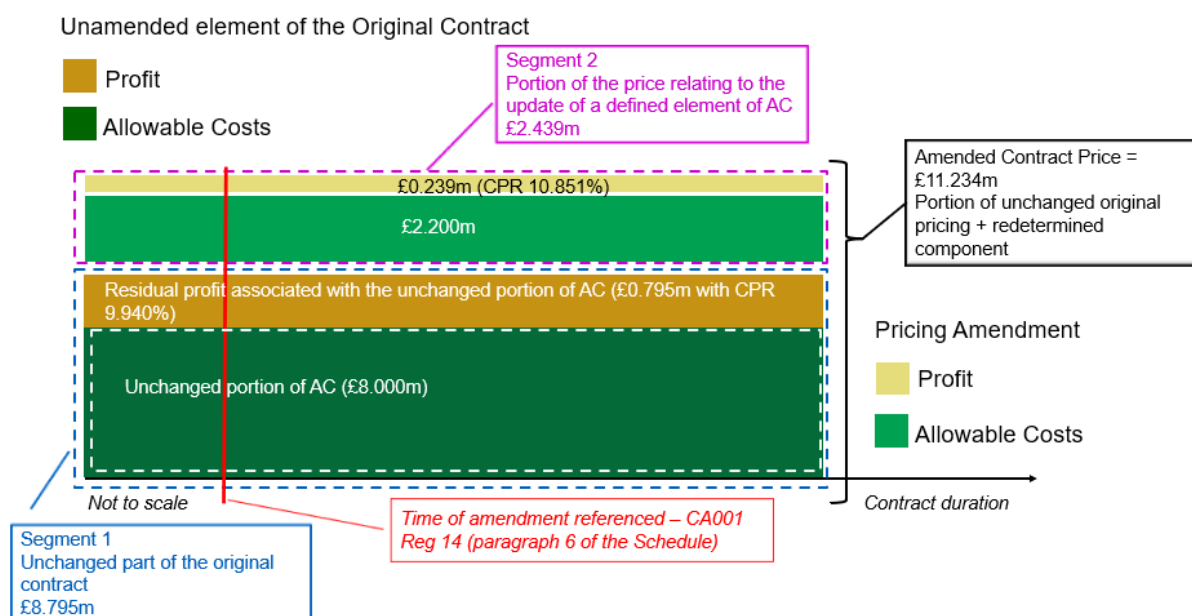
Step 1 – Baseline profit rate	7.63%
Step 2 – Cost risk adjustment	0.763%
Step 3 – Profit on cost once adjustment	0.000%
Step 4 – SSRO funding adjustment	-0.042%
Step 5 – Incentive adjustment	1.000%
Step 6 – Capital servicing adjustment	1.500%
<b>Contract profit rate</b>	<b>10.851%</b>

11. Therefore, the price payable under the amended contract, at the date of 1 January 2020 is reported as £11.234 million.

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

12. In reporting the change of contract price payable from £10.994 million to £11.234 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 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 6 of the Schedule scenario, for the amendment explained in paragraph 7 of this guidance.

**Figure 5 - Spreadsheet completion for the Regulation 14 (paragraph 6 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)		Unchanged part of the original contract	Portion of the price relating to the update, from amendment CA001, of a defined element of Allowable Costs			Removal of portion of the price associated with the defined element of Allowable Costs that is updated by CA001	Portion of the price added, as the update, from amendment CA001, of the defined element of Allowable Costs	
9	Type of Pricing amendment (paragraph of Regulation 14 or /non-Regulation 14) (drop down menu)						Reg 14 – 6(1) Change to defined element of Allowable Costs	Reg 14 – 6(1) Change to defined element of Allowable Costs	
10	Price Breakdown	Allowable Costs including Risk Contingency Element (£m, 3dp)	£ 10.200	£ 8.000	£ 2.200	£ -	£ 2.000	£ 2.200	£ -
11		Allowable Costs excluding Risk Contingency (£m, 3dp)	£ 9.700	£ 7.500	£ 2.200		£ 2.000	£ 2.200	
12		Risk Contingency Element (£m, 3dp)	£ 0.500	£ 0.500	£ -				
13		Profit (£m, 3dp)	£ 1.034	£ 0.795	£ 0.239		£ 0.199	£ 0.239	
14		Contract Price (£m, 3dp)	£ 11.234	£ 8.795	£ 2.439	£ -	£ 2.199	£ 2.439	£ -
15	Profit rate	Step 1 - Baseline Profit Rate (% , 2dp)		6.81%	7.63%		6.81%	7.63%	
16		Step 2 - Cost Risk Adjustment (% , 3dp)		0.654%	0.763%		0.654%	0.763%	
17		Step 3 - POCC 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)		1.000%	1.000%		1.000%	1.000%	
20		Step 6 - Capital Servicing Adjustment (% , 3dp)		1.500%	1.500%		1.500%	1.500%	
21	Contract Profit Rate (% , 3dp)		10.136%	9.940%	10.851%		9.940%	10.851%	
22	Pricing Method	Firm Pricing Method (£m, 3dp)	£ 11.234	£ 8.795	£ 2.439		£ 2.199	£ 2.439	
23		Fixed Pricing Method (£m, 3dp)							
24		Cost-Plus Pricing Method (£m, 3dp)							
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 2 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 £11.234 million, being the addition of pricing segment 1 (£8.795 million) to pricing segment 2 (£2.439 million). The overall contract profit rate is 10.136%, as a cost weighted average of the contract profit rates of pricing segments 1 and 2, reported in Columns D and E.
  - Column D – this column sets out the allowable costs and profit which remain from the original contract price, after the provisional element was deducted as the adjustment amount from the amendment. The firm pricing method is reported in this column.
  - Column E – this column sets out the allowable costs and profit which have been added by CA001 in updating the defined element of allowable costs. The firm pricing method is also being used. This part of the contract price has a different contract profit rate from pricing segment 1, agreed at 10.851% and using the prevailing baseline profit rate at the time of agreement, 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 adjustment step where the defined element of allowable costs and the profit that related to those are being removed from the original contract price, as a result of amendment CA001. The adjustment is using the contract profit rate as was originally agreed, at 9.940%.
  - Column H – this column shows the allowable costs and profit which have been added by CA001 in updating the defined element of allowable costs. The contract profit rate of 10.851% is being used to determine the price payable in respect of the amendment.
  - Column I – this column is blank as the effect of the amendment was described in the two steps reported in columns G and H.
  - The contractor has shown that paragraph 6(1) of the Schedule applies by selecting this option from the drop-down menu at cells G9 and H9.



### 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 
Statutory Guidance on the Contract Profit Rate in force at the time of agreement	VERSION 5.0 1 APRIL 2019 
Total Allowable Costs (Including any Risk Contingency Element)	10.200
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>	% 10.136
	<b>CONTRACT PROFIT RATE - Expressed as amount</b>	£m 1.033872
Price	<b>The total Contract Price, including maximum amount that can be earned via Incentive Adjustment</b>	£m 11.233872

### 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 method 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="11.234"/>
Fixed Pricing	<input type="text"/>
Cost Plus Pricing	<input type="text"/>
Estimate Based Fee Pricing	<input type="text"/>
Volume Driven Pricing	<input type="text"/>
Target Pricing	<input type="text"/>
Total	<input type="text" value="11.234"/>
Comments on Pricing method breakdown	<input type="text"/>